

# **FELCOR LODGING TRUST INCORPORATED**

## **AUDIT COMMITTEE CHARTER**

### **ORGANIZATION**

There shall be a committee of the Board of Directors, to be known as the "Audit Committee," established pursuant to Section 2-411 of the Maryland General Corporation Law and Section 3.15 of the Bylaws of FelCor Lodging Trust Incorporated ("Corporation"). The Audit Committee shall be comprised of at least three (3) members of the Board of Directors of the Corporation who are Independent Directors of the Corporation and otherwise meet the qualifications for membership set forth herein. The Board of Directors shall elect the members of the Audit Committee, who shall serve until their successors are elected and qualified, and shall designate one of the members of the Audit Committee to serve as Chairman thereof. The Secretary of the Corporation shall serve as the Secretary of the Audit Committee.

### **STATEMENT OF PURPOSE**

The purpose of the Audit Committee shall be:

1. To assist the Corporation's Board of Directors in its oversight of the:
  - a. Integrity of the Corporation's financial statements;
  - b. Corporation's compliance with legal and regulatory requirements;
  - c. Independence and qualifications of the independent auditors; and
  - d. Performance of the Corporation's internal audit function and the independent auditors; and
2. To prepare the report required by the proxy rules of the Securities Exchange Commission ("SEC") to be included in the Corporation's annual proxy statement.

In the course of fulfilling its purpose, the Audit Committee is to maintain free and open communication between the Directors, the independent auditors and the financial management of the Corporation. In addition, the Audit Committee shall promote with the Corporation's management, an environment of high integrity and control consciousness.

### **DUTIES**

In carrying out its purpose, the Audit Committee shall maintain the flexibility to react to changing conditions, and may adopt such policies and procedures as it shall deem appropriate to provide assurance to the Directors and shareholders of the Corporation that the Corporation's accounting and reporting practices are in compliance with all applicable legal requirements and are consistent with industry practices. The Audit Committee shall also undertake such other tasks as may be delegated to it, from time to time, by the Board of Directors.

Specific duties and responsibilities of the Audit Committee are as follows:

1. Independent Auditors. The Audit Committee shall directly appoint, retain, compensate, evaluate and terminate the Company's independent auditors.
  - a. The Audit Committee is directly responsible for the appointment, compensation, retention, evaluation, oversight and termination of the independent auditor engaged for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Corporation.
  - b. The Audit Committee is responsible for resolving any disagreements between management of the Corporation and the independent auditor regarding financial reporting.
  - c. The Audit Committee is responsible for pre-approving any engagement for audit or non-audit services to be performed by the independent auditor and to comply with any disclosure requirements of applicable laws or regulations.
  - d. The Audit Committee shall determine and receive appropriate funding from the Corporation for payment of compensation to any independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation.
  - e. The Audit Committee should review, assess and assure the independent auditor's compliance with the requirement for regular rotation of audit and review partners on the Corporation's audit by the independent auditor contained in Section 203 of the Sarbanes-Oxley Act of 2002.
  - f. The Audit Committee should review, in consultation with management and the independent auditor, the audit scope and plan proposed by the independent auditor.
2. Complaints. The Audit Committee shall establish and monitor procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters.
  - a. Procedures will also be established for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
  - b. The Audit Committee shall review and take such action, as they deem necessary or appropriate, with respect to complaints or concerns received from employees or others on accounting, internal accounting controls or auditing matters.

3. Advisors and Funding. The Audit Committee shall have the authority to engage independent counsel and other advisors, as the Audit Committee deems necessary to carry out its duties. The Audit Committee shall determine and receive appropriate funding from the Corporation for payment of: (i) compensation to any independent counsel or other advisors engaged by the Audit Committee, and (ii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.
4. Regular Meetings. The Audit Committee shall meet at least four times during each calendar year, with additional meetings to be called by the Chairman of the Committee if, in his opinion, circumstances require. The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary.
5. Auditor's Qualifications and Performance. The Audit Committee shall, at least annually, obtain and review a report by the independent auditor describing the following:
  - a. the firm's internal quality-control procedures,
  - b. any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues, and
  - c. all relationships between the independent auditor and the Corporation, to enable the Audit Committee to assess the auditor's independence.

After reviewing the foregoing report and the independent auditor's work throughout the year, the Audit Committee should evaluate the auditor's qualifications, performance and independence, including the review and evaluation of the lead partner of the independent auditor. In making its evaluation, the Audit Committee should take into account the opinions of management and the Corporation's internal auditors and should consider whether, to assure continuing auditor independence, there should be regular rotation of the audit firm. The Audit Committee should present its conclusions with respect to the independent auditor to the full Board of Directors.

6. Financial Statements. The Audit Committee shall discuss, prior to inclusion in any filing with the Securities and Exchange Commission, the annual audited financial statements and quarterly financial statements with management and the independent auditor, including the Company's disclosures under "Management's Discussion and Analysis." In this process, the Audit Committee should review with management and the independent auditor the following:

- a. The major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies;
- b. Analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;
- c. The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation; and
- d. The degree of aggressiveness or conservatism of the accounting principles and underlying estimates being utilized by the Corporation and whether those principles and estimates are consistent with, or deviate from, customary industry practices, and the independent auditor's reasoning behind its acceptance or questioning of significant estimates by management.

In addition, the Audit Committee should review and discuss separately with the independent auditor its report required under Section 204 of the Sarbanes-Oxley Act of 2002 on:

- 1) all critical accounting policies and practices to be used;
- 2) all alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, including the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and
- 3) other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

Based upon its review, the Audit Committee must determine whether to recommend to the full Board of Directors that the audited financial statements be included in the Corporation's Annual Report on Form 10-K.

7. Earnings Releases. The Audit Committee shall discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies. This discussion may be done generally, and the Audit Committee need not discuss in advance each earnings release or each instance in which the Corporation may provide

earnings guidance. Included in this discussion will be the type and presentation of information to be included in earnings press releases, paying particular attention to any use of "pro forma," or "adjusted" non-GAAP, information, as well as a review of any financial information and earnings guidance provided to analysts and rating agencies.

8. Risk Management and Internal Controls. The Audit Committee shall discuss policies with respect to risk assessment and risk management, including guidelines and policies to govern the process by which management assesses and manages the Corporation's exposure to risk. The Audit Committee should discuss the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures. The Audit Committee should review annually the Corporation's insurance programs to assess the adequacy of coverage with respect to the identified risks. The Audit Committee shall establish, maintain and oversee an internal audit function for the Corporation to provide management and the Audit Committee with ongoing assessments of the Corporation's risk management process and system of internal controls. In this process, the Audit Committee shall review and discuss with management and the independent auditor the following:
  - a. The adequacy of internal controls, including computerized information system controls and security;
  - b. Recommendations of the independent auditor relating to improvements in internal accounting controls, including the status of previous recommendations; and
  - c. Management's annual internal control report and the attestation and report by the independent auditor on management's assessment in the annual internal control report for inclusion in the Corporation's annual report.
9. Separate Meetings. The Audit Committee shall meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors.
10. Audit Problems. The Audit Committee shall review with the independent auditor any audit problems or difficulties and management's response, including the following:
  - a. Findings and recommendations of the independent auditor, together with management's responses;
  - b. Any problems or difficulties encountered by the independent auditor in the course of its audit work, including any restrictions on the scope of its activities or its access to requested information, any significant disagreements with management, and management's responses;
  - c. Any significant changes required in the scope of the independent auditor's audit plan; and
  - d. Discussion of the responsibilities, budget and staffing of the Corporation's internal audit function.

11. Hiring Policies for Auditors. The Audit Committee shall set clear hiring policies for employees or former employees of the independent auditors, including compliance with the SEC's rules in this area.
12. Reports to Board. The Audit Committee shall report regularly to the Board of Directors. The Audit Committee should review with the full Board of Directors any issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the Corporation's independent auditor or the performance of the internal audit function.
13. Reports by Attorneys. The Audit Committee shall review, make appropriate investigations and responses and take such other actions, as the Audit Committee deems necessary or appropriate and in compliance with applicable laws and regulations, with respect to any reports from any attorneys of evidence of a material violation of securities law or breach of fiduciary duty or similar violation by the Corporation or any of its agents. Additionally, they shall review periodically with the Corporation's general counsel those legal and regulatory matters that may have a material impact on the Corporation's financial statements, compliance policies and programs.
14. Reports of Illegal or Unethical Behavior. Pursuant to the Corporation's Code of Business Conduct and Ethics, a copy of all reports of wrongdoing relating to accounting or financial reporting matters, or that relate to persons involved in the development or implementation of the Corporation's system of internal controls, will be promptly provided to Chairman of the Audit Committee. The Audit Committee shall review and participate in the investigation and resolution of any matter so reported to the Chairman if, in the judgment of the Chairman, such matter might reasonably be expected to have an adverse effect on the integrity of the Corporation's financial reporting or system of internal controls.
15. Annual Board Meeting With Auditor. The Audit Committee should arrange for a representative of the independent auditor to be available to the full Board of Directors at least annually.
16. Charter Review. At least annually, the Audit Committee must review the Charter of the Audit Committee and recommend any necessary or advisable amendments to such Charter to the Board of Directors for adoption.
17. Committee Proxy Statement Report. The Audit Committee must prepare, and cause to be included in the Corporation's annual proxy statement, a report of the Audit Committee in compliance with applicable laws, rules and regulations.
18. Annual Committee Evaluation. The Audit Committee should perform an annual performance evaluation of the Audit Committee.

## MEMBERSHIP QUALIFICATIONS

1. General Independence Requirements. All members of the Audit Committee shall be "independent," as determined in accordance with SEC and NYSE rules.
2. Board Determination. The Board of Directors must affirmatively determine that each member of the Audit Committee has no material relationship with the Corporation, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Corporation. The basis for a Board determination that a relationship is not material must be disclosed in the Corporation's annual proxy statement.
3. Employment Relationship. A director who is an employee, or whose immediate family member is an executive officer, of the Corporation is not independent until three (3) years after the end of such employment relationship. Employment as an interim Chairman or Chief Executive Officer does not disqualify a director from being considered independent following that employment.
4. Direct Compensation Restriction. A director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the Corporation, other than director and committee fees and pension or other forms of deferred compensation for prior service (if such compensation is not contingent in any way on continued service), is not "independent" until three (3) years after he or she ceases to receive more than \$100,000 per year in such compensation. Compensation received by a director for former service as an interim Chairman or Chief Executive Officer, or by an immediate family member for service as a non-executive employee of the Corporation, need not be considered for the purpose of this test.
5. Auditor Employment Restriction. A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Corporation is not considered "independent" until three (3) years after the end of the affiliation or the employment or auditing relationships.
6. Interlocking Committees. A director who is employed, or whose immediate family member is employed, as an executive officer of another company, if any executive officer of the Corporation serves on the compensation committee of such other company, is not "independent" until three (3) years after the end of such service or the employment relationship.
7. Transactions With Other Companies. A director who is an executive officer or employee, or whose immediate family member is an executive officer, of another company that makes payments to, or receives payments from, the Corporation for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues, is not "independent" until three (3) years after falling below such threshold. In applying this

test, both the payments and the consolidated gross revenues to be measured shall be those reported in the last completed fiscal year. The look-back provision for this test applies solely to the financial relationship between the Corporation and the director's or immediate family member's current employer. Charitable organizations are not considered "companies" for this test but special disclosures may be required by NYSE rule if contributions by the Corporation for any single fiscal year exceed the greater of \$1 million or 2% of such charitable organization's consolidated gross revenues.

8. Financial Literacy. All members of the Audit Committee shall be financially literate, in each case as determined by the Board of Directors, or must become financially literate within a reasonable period of time after his or her appointment to the Audit Committee. At least one member of the Audit Committee must be an "audit committee financial expert," as defined by SEC rules.
9. Affiliate and Consulting Fee Restrictions. An Audit Committee member may not be an affiliated person of the Corporation or any of its subsidiaries and may not accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation or any of its subsidiaries that would violate the independence requirements of applicable SEC rules.
10. Service on Other Audit Committees. If a member of the Audit Committee serves on the Audit Committee of more than three (3) public companies, the Board of Directors shall determine whether such simultaneous service will impair the director's ability to serve effectively on the Audit Committee and disclose such determination in accordance with the regulations of the NYSE.

### **PROCEDURAL RULES**

1. One Vote Per Member. Each member of the Audit Committee shall have one vote.
2. Quorum. A quorum of the Audit Committee shall consist of a majority of the then members thereof.
3. Meetings. Regular or special meetings of the Audit Committee may be held in person or by means of conference telephone equipment.
4. Required Vote. The Audit Committee shall take action only by the affirmative vote of a majority of the members present at any meeting at which a quorum is present, or by the unanimous written consent of the members thereof.
5. Minutes. The Audit Committee shall maintain minutes of its meetings, reflecting the actions taken or authorized by it, and copies thereof shall be provided to the Board of Directors.

*Amended and Adopted by Resolution of the Board of Directors  
October 25, 2005*