W2007 Grace Acquisition I, Inc.
6011 Connection Drive
Irving, TX 75039

May 14, 2015

Dear Shareholder:

You are cordially invited to attend a special meeting of shareholders of W2007 Grace Acquisition I, Inc. (the "Company," "we," "us" or "our") to be held on July 14, 2015, at 10:00 a.m. Central Time. The special meeting will be a virtual meeting of shareholders which means that you will be able to participate in the special meeting and vote at the special meeting via live webcast by visiting www.virtualshareholdermeeting.com/982568.

At the special meeting, you will be asked to consider and approve:

1. an amendment to our Amended and Restated Charter to limit the voting rights of holders of our 8.75% Series B Cumulative Preferred Stock (the "Series B Preferred Stock") and 9.00% Series C Cumulative Preferred Stock (the "Series C Preferred Stock", and together with the Series B Preferred Stock, the "Preferred Stock");

2. the Agreement and Plan of Merger, dated as of May 10, 2015 (the "merger agreement"), by and among the Company, W2007 Grace II, LLC ("Parent"), W2007 Grace Acquisition II, Inc., and, solely for the purposes of certain payment obligations thereunder, PFD Holdings LLC ("PFD Holdings"), Whitehall Parallel Global Real Estate Limited Partnership 2007 and W2007 Finance Sub, LLC; and

3. the adjournment of the special meeting, if necessary or appropriate, including to solicit additional votes in favor of the proposal to approve the amendment to our Amended and Restated Charter.

If the merger is completed, each holder of Preferred Stock at the effective time of the merger will be entitled to receive $26.00 in cash, without interest and less any applicable withholding taxes (as explained more fully in the enclosed proxy statement, the "merger consideration") for each share of our Series B Preferred Stock and each share of our Series C Preferred Stock owned by you immediately prior to the merger (other than shares held by holders who have properly demanded and perfected their dissenters' rights under the Tennessee Business Corporation Act (the "TBCA") or shares held by the Company or one of its subsidiaries). Each share of our common stock and each share of our Series D Cumulative Preferred Stock (the "Series D Preferred Stock") will be cancelled without consideration. Following the effective time of the merger, we will be a wholly-owned subsidiary of Parent (which is wholly-owned by Whitehall Parallel Global Real Estate Limited Partnership 2007 and W2007 Finance Sub, LLC). The receipt of cash in exchange for your shares of the Preferred Stock will constitute a taxable transaction for U.S. federal income tax purposes.

Pursuant to a Stipulation and Agreement of Settlement (the "Stipulation") dated October 8, 2014, as supplemented on December 4, 2014, and preliminarily approved by the United States District Court for the Western District of Tennessee (the "Court") on April 30, 2015, we agreed to adopt and present for a vote the amendment to our Amended and Restated Charter and the merger agreement. The following is a summary of the Stipulation, and is qualified in its entirety by reference to the full text of the Stipulation, a copy of which is attached to the enclosed proxy statement as Annex C. The Stipulation was negotiated in connection with the action *David Johnson, et al.* v. *W2007 Grace Acquisition I Inc., et al.*, No. 2:13-cv-02777 (W.D. Tenn.) brought against the Company, our board of directors, and certain of our equity holders and their affiliates, by individual current and former holders of our Series B Preferred Stock and Series C Preferred Stock (the "Action").

The Stipulation resolves claims asserted in the Action on behalf of (i) members of the Holder Class (defined as any and all persons who, as of August 22, 2014 and through the effective time of the merger, hold shares of the Preferred Stock, excluding the defendants in the Action and their affiliates, persons who opt out of the Holder Class, and holders of dissenting shares) and (ii) members of the Seller Class (defined as all persons who sold some or all of their shares of Preferred Stock between October 25, 2007 and October 8, 2014, inclusive, and suffered a loss, excluding the defendants in the Action, their affiliates and persons who

sold shares to PFD Holdings, and persons who opt out of the Seller Class). The Stipulation also provides for a broad release by members of the Holder Class and Seller Class of any and all claims (including any and all unknown claims), demands, actions, causes of action, obligations, debts, judgments and liabilities of any kind, nature and description, whether direct or derivative, whether at law or in equity, upon any legal or equitable theory, whether contractual, common law or statutory, whether arising under federal, state, common, or foreign law (including, without limitation, claims under the federal securities laws and regulations, claims for breach of fiduciary duty, breach of contract or corporate charter, or the misstatement of or the failure to disclose material facts), whether secured or unsecured, contingent or absolute, choate or inchoate, liquidated or unliquidated, perfected or unperfected, in any forum, including in arbitration or similar proceedings, including class, derivative, individual or other claims, that previously existed or that currently exist as of the date of the approval of the settlement contemplated by the Stipulation (the "Settlement") by the Court or that may arise in the future, against the released defendant parties in the Action, (1) related to the purchase, sale, holding or investment in, or the terms of, the securities of the Company or its predecessors (including Equity Inns, Inc.), including, without limitation, the Preferred Stock, (2) asserted, or that could have been asserted, in the Action, or arising out of or relating to the facts, matters and transactions alleged in the Action, including, without limitation, claims for breach of contract, claims for breach of fiduciary duties, and claims for violations of the TBCA, and/or (3) arising out of the merger that is a component of the Settlement, including, without limitation claims related to the sufficiency of the merger process and the proxy statement, and claims for breach of the fiduciary duties; provided that the released claims do not include claims based upon the interpretation or enforcement of the terms of the Settlement.

In addition, the letter of transmittal, a form of which is attached to the merger agreement included as Annex B to the enclosed proxy statement, will contain a release using the same language. In consideration for the release of claims, as described in the Stipulation, current holders of Preferred Stock, including members of the Holder Class, are entitled to receive the merger consideration, subject to the terms and conditions set forth in the merger agreement and the Stipulation. Holders of our Series B Preferred Stock and Series C Preferred Stock will not be entitled to receive the merger consideration until after they surrender their certificate or certificates to the exchange agent, together with a duly completed and executed letter of transmittal and any other documents the exchange agent may reasonably require.

The Stipulation also provides for a Seller Class Settlement Fund of $6 million, which is distributable to members of the Seller Class, after taxes and notice and administration expenses (the "Net Seller Class Settlement Fund"), pursuant to a Plan of Allocation preliminarily approved by the Court. Members of the Seller Class must submit Proof of Claim Forms by the date set by the Court in the Preliminary Approval Order and specified in the Notice of Pendency of Class Action and Proposed Settlement ("Notice"). The Claims Administrator will determine each authorized claimant's share of the Net Seller Class Settlement Fund based upon each claimant's recognized loss, as defined in a Plan of Allocation. Any balance in the Net Seller Class Settlement Fund after distribution to authorized claimants will be distributed by the Claims Administrator pro rata to the members of the Holder Class, as set forth in the Plan of Allocation and the Stipulation.

Neither the Company nor our board of directors makes any recommendations as to whether holders of the Preferred Stock should vote in favor of the proposals to be considered at the special meeting for the following reasons, among others:

- **W2007 Grace I, LLC, the Company's parent and a defendant in the Action ("Company Parent"), owns 100% of the issued and outstanding common stock of the Company and thus controls the vote to elect the board of directors of the Company;**

- **PFD Holdings, an affiliate of the Company and defendant in the Action, owns a majority of the Series B Preferred Stock and the Series C Preferred Stock;**

- **The Goldman Sachs Group, Inc., an affiliate of the Company and defendant in the Action, owns all of the Series D Preferred Stock; and**

- **Approval of the merger agreement and the amendment to our Amended and Restated Charter are conditions to the Stipulation, pursuant to which the defendants, including the Company, its directors, Company Parent, PFD Holdings and The Goldman Sachs Group, Inc. will be released.**

You must make your own decision as to how to vote your shares at the special meeting and are urged to carefully review all information contained or referred to in the enclosed proxy statement. You should consult your own attorney, financial advisor and tax advisor, respectively, as to legal, financial or tax advice with respect to the proposals to be considered at the special meeting.

The amendment to our Amended and Restated Charter must be approved by holders of at least 66 2/3% of the outstanding shares of our Series B Preferred Stock and Series C Preferred Stock voting together as a single class. The approval by the affirmative vote of the holders of at least a majority of each of our Series B Preferred Stock and our Series C Preferred Stock voting as separate voting groups is a condition to the Company's obligation to consummate the merger. For the proposal to adjourn the special meeting, if necessary or appropriate, to be approved, with respect to our Series B Preferred Stock and our Series C Preferred Stock, the affirmative votes "FOR" the proposal must exceed the affirmative votes "AGAINST" the proposal (even if less than a quorum with respect to such class). The accompanying notice of special meeting of shareholders provides specific information concerning the special meeting. The enclosed proxy statement provides you with a summary of the amendment to our Amended and Restated Charter, the merger, the merger agreement and the other transactions contemplated by the merger agreement and additional information about the parties involved. We encourage you to read carefully the enclosed proxy statement and its annexes, including the amendment to our Amended and Restated Charter, the merger agreement and the Stipulation, copies of which are included in the proxy statement as Annex A, Annex B and Annex C, respectively.

Your vote on the amendment to our Amended and Restated Charter is very important regardless of the number of shares of our Preferred Stock that you own. The failure of any shareholder to vote on the proposal to amend our Amended and Restated Charter or the proposal to approve the merger agreement will have the same effect as a vote against such matters.

Company Parent beneficially owns and has the right to vote 100% of the 100 shares of the Company's issued and outstanding common stock and has delivered a unanimous written consent in accordance with the TBCA, consenting to the approval of the merger agreement. PFD Holdings, an affiliate of the Company and a defendant in the Action, beneficially owns and has the right to vote approximately 51% of the outstanding shares of the Series B Preferred Stock and approximately 71% of the Series C Preferred Stock and thus holds a sufficient number of shares of the Series B Preferred Stock and the Series C Preferred Stock to approve the merger agreement for each of the respective classes voting separately without the vote of any other holders of the Series B Preferred Stock or the Series C Preferred Stock. The Goldman Sachs Group, Inc., an affiliate of the Company and a defendant in the Action, beneficially owns and has the right to vote all of the 112 shares of the issued and outstanding shares of our Series D Preferred Stock and has delivered a unanimous written consent in accordance with the TBCA, consenting to the approval of the merger agreement. Accordingly, the approval by the shareholders of the merger agreement at the special meeting is assured without the affirmative vote of any other shareholder. PFD Holdings beneficially owns and has the right to vote 3,450,735 shares, representing approximately 59%, of the Series B Preferred Stock and the Series C Preferred Stock voting together as a single class. Because the amendment to the Amended and Restated Charter will require the vote of holders of 66 2/3% of the shares of the Series B Preferred Stock and the Series C Preferred Stock, the amendment will require the vote of holders other than PFD Holdings. As described in the enclosed proxy statement, the amendment to the Amended and Restated Charter is a waivable condition to the Company's obligation to consummate the merger. If the conditions to merger are not satisfied or waived, the defendants will have the option (which option may be exercised unilaterally by the defendants in their discretion) to terminate the Settlement and render the Stipulation null and void.

Whether or not you plan to attend the special meeting, please complete, date, sign and return, as promptly as possible, the enclosed proxy in the accompanying reply envelope, or submit your proxy by telephone or the Internet. Shareholders who attend the special meeting may revoke their proxies and vote at

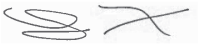
the special meeting. The enclosed proxy card contains instructions regarding all three methods of proxy authorization.

Dissenters' rights are available to holders of our Series B Preferred Stock and Series C Preferred Stock with respect to the amendment to our Amended and Restated Charter in the event of its implementation and with respect to the merger in the event it is consummated who do not vote in favor of the respective proposal and who perfect their dissenters' rights by complying with the provisions of Tennessee law. Please see the discussion under the caption "Dissenters' Rights" in the enclosed proxy statement for a discussion of the availability of dissenters' rights and the procedures required to be followed to assert these rights.

After the effective time of the merger, the merger consideration will be paid to the holders of Preferred Stock following delivery to the exchange agent of a properly executed letter of transmittal, a form of which is attached to the merger agreement included as Annex B in the enclosed proxy statement. The letter of transmittal contains important terms relating to the merger and should be reviewed carefully in its entirety. You will not be entitled to receive the merger consideration until you surrender your certificate or certificates, if any, to the exchange agent (or otherwise comply with the process in the event of lost certificates), together with a duly completed and executed letter of transmittal and any other documents the exchange agent may reasonably require.

Thank you for your continued support and we look forward to your participation on July 14, 2015.

Sincerely,



Gregory Fay
Secretary

Neither the Securities and Exchange Commission nor any state regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in the accompanying proxy statement. Any representation to the contrary is a criminal offense.

If you have any questions or require any assistance with voting your shares, please contact

MORROW & CO., LLC

470 West Avenue
Stamford, CT 06902

Shareholders Call Toll-Free: (800) 662-5200

or

Call Direct at (203) 658-9400

W2007 Grace Acquisition I, Inc.
6011 Connection Drive
Irving, TX 75039

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON JULY 14, 2015

Dear Shareholder:

NOTICE IS HEREBY GIVEN that a special meeting of the shareholders of W2007 Grace Acquisition I, Inc. (the "Company," "we," "us" or "our") will be held on July 14, 2015, at 10:00 a.m. Central Time. The special meeting will be a virtual meeting of shareholders which means that you will be able to participate in the special meeting and vote at the special meeting via live webcast by visiting www.virtualshareholdermeeting.com/982568. The special meeting will take place for the purpose of acting upon the following proposals:

1. to consider and vote upon a proposal to approve an amendment to our Amended and Restated Charter to limit the voting rights of holders of our 8.75% Series B Cumulative Preferred Stock (the "Series B Preferred Stock") and 9.00% Series C Cumulative Preferred Stock (the "Series C Preferred Stock", and together with the Series B Preferred Stock, the "Preferred Stock");

2. to consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of May 10, 2015 (the "merger agreement"), by and among W2007 Grace Acquisition I, Inc., W2007 Grace II, LLC, W2007 Grace Acquisition II, Inc., and, solely for the purposes of the payment obligations thereunder, PFD Holdings, LLC ("PFD Holdings"), Whitehall Parallel Global Real Estate Limited Partnership 2007 and W2007 Finance Sub, LLC; and

3. to consider and vote upon any proposal to adjourn the special meeting, if necessary or appropriate, including to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the amendment to our Amended and Restated Charter.

If the merger is completed, each holder of Preferred Stock at the effective time of the merger will be entitled to receive $26.00 in cash, without interest and less any applicable withholding taxes (as explained more fully in the proxy statement, the "merger consideration") for each share of our Series B Preferred Stock and each share of our Series C Preferred Stock owned by you immediately prior to the merger (other than shares held by holders who have properly demanded and perfected their dissenters' rights under the Tennessee Business Corporation Act (the "TBCA") or shares held by the Company or one of its subsidiaries). Each share of our common stock and each share of our Series D Cumulative Preferred Stock (the "Series D Preferred Stock") will be cancelled without consideration. Following the effective time of the merger, we will be a wholly-owned subsidiary of Parent (which is wholly-owned by Whitehall Parallel Global Real Estate Limited Partnership 2007 and W2007 Finance Sub, LLC). The receipt of cash in exchange for your shares of the Preferred Stock will constitute a taxable transaction for U.S. federal income tax purposes.

Only shareholders of record of our Series B Preferred Stock and Series C Preferred Stock at the close of business on the record date, May 11, 2015, are entitled to notice of the special meeting or any postponements or adjournments of the special meeting. Shareholders of record of our Series B Preferred Stock and Series C Preferred Stock on the record date are entitled to one quarter of one (0.25) vote per share on the proposal to approve the amendment to our Amended and Restated Charter and will vote as a single class. Shareholders of record of our Series B Preferred Stock and Series C Preferred Stock on the record date are entitled to one vote per share voting as separate voting groups on the proposals to approve the merger agreement and to adjourn the special meeting, if necessary or appropriate.

Approval of the amendment to our Amended and Restated Charter requires the affirmative vote of holders of at least 66 2/3% of the outstanding shares of our Series B Preferred Stock and Series C Preferred Stock voting together as a single class. Approval of the merger agreement requires the affirmative vote of the holders of at least a majority of each class of our outstanding shares of capital stock voting as separate voting groups. W2007 Grace I,

LLC, the Company's parent and a defendant in the Action ("Company Parent"), beneficially owns and has the right to vote 100% of the 100 shares of the Company's issued and outstanding common stock and has delivered a unanimous written consent in accordance with the TBCA, consenting to the approval of the merger agreement. PFD Holdings, an affiliate of the Company and a defendant in the Action, beneficially owns and has the right to vote approximately 51% of the outstanding shares of the Series B Preferred Stock and approximately 71% of the Series C Preferred Stock and thus holds a sufficient number of shares of the Series B Preferred Stock and the Series C Preferred Stock to approve the merger agreement for each of the respective classes voting separately without the vote of any other holders of the Series B Preferred Stock or the Series C Preferred Stock. The Goldman Sachs Group, Inc., an affiliate of the Company and a defendant in the Action, beneficially owns and has the right to vote all of the 112 shares of the issued and outstanding shares of our Series D Preferred Stock and has delivered a unanimous written consent in accordance with the TBCA. Accordingly, the approval by the shareholders of the merger agreement at the special meeting is assured without the affirmative vote of any other shareholder. PFD Holdings beneficially owns and has the right to vote 3,450,735 shares, representing approximately 59%, of the Series B Preferred Stock and the Series C Preferred Stock voting together as a single class. Because the amendment to the Amended and Restated Charter will require the vote of holders of 66 2/3% of the shares of the Series B Preferred Stock and the Series C Preferred Stock, the amendment will require the vote of holders other than PFD Holdings. As described in the proxy statement, the amendment to the Amended and Restated Charter is a waivable condition to the Company's obligation to consummate the merger. If the conditions to merger are not satisfied, the defendants will have the option (which option may be exercised unilaterally by the defendants in their discretion) to terminate the settlement and render the Stipulation null and void. Approval of the proposal to adjourn the special meeting, if necessary or appropriate, requires, with respect to each of our Series B Preferred Stock and our Series C Preferred Stock, that the affirmative votes "FOR" the proposal exceed the affirmative votes "AGAINST" the proposal (even if less than a quorum with respect to such class). If you hold your shares of the Preferred Stock through a broker or other nominee and you want your vote counted, you must instruct your broker or nominee to vote.

Any proxy may be revoked at any time prior to its exercise by delivery of a later-dated proxy (including by using the toll-free telephone number or Internet website address) or by attending the special meeting and notifying the chairman of the special meeting that you would like your proxy revoked. By authorizing your proxy promptly, you can help us avoid the expense of further proxy solicitations.

Pursuant to a Stipulation and Agreement of Settlement (the "Stipulation") dated October 8, 2014, as supplemented on December 4, 2014, and preliminarily approved by the United States District Court for the Western District of Tennessee (the "Court") on April 30, 2015, we agreed to adopt and present for a vote the amendment to our Amended and Restated Charter and the merger agreement. The following is a summary of the Stipulation, and is qualified in its entirety by reference to the full text of the Stipulation, a copy of which is attached to the proxy statement as Annex C. The Stipulation was negotiated in connection with the action *David Johnson, et al.* v. *W2007 Grace Acquisition I Inc., et al.*, No. 2:13-cv-02777 (W.D. Tenn.) brought against the Company, our board of directors, and certain of our equity holders and their affiliates, by individual current and former holders of our Series B Preferred Stock and Series C Preferred Stock (the "Action").

The Stipulation resolves claims asserted in the Action on behalf of (i) members of the Holder Class (defined as any and all persons who, as of August 22, 2014 and through the effective time of the merger, hold shares of the Preferred Stock, excluding the defendants in the Action and their affiliates, persons who opt out of the Holder Class, and holders of dissenting shares) and (ii) members of the Seller Class (defined as all persons who sold some or all of their shares of Preferred Stock between October 25, 2007 and October 8, 2014, inclusive, and suffered a loss, excluding the defendants in the Action, their affiliates and persons who sold shares to PFD Holdings, and persons who opt out of the Seller Class). The Stipulation also provides for a broad release by members of the Holder Class and Seller Class of any and all claims (including any and all unknown claims), demands, actions, causes of action, obligations, debts, judgments and liabilities of any kind, nature and description, whether direct or derivative, whether at law or in equity, upon any legal or equitable theory, whether contractual, common law or statutory, whether arising under federal, state, common, or foreign law (including, without limitation, claims under the federal securities laws and regulations, claims for breach of fiduciary duty, breach of contract or corporate charter, or the misstatement of or the failure to disclose material facts), whether secured or unsecured, contingent or absolute, choate or inchoate, liquidated

or unliquidated, perfected or unperfected, in any forum, including in arbitration or similar proceedings, including class, derivative, individual or other claims, that previously existed or that currently exist as of the date of the approval of the settlement contemplated by the Stipulation (the "Settlement") by the Court or that may arise in the future, against the released defendant parties in the Action, (1) related to the purchase, sale, holding or investment in, or the terms of, the securities of the Company or its predecessors (including Equity Inns, Inc.), including, without limitation, the Preferred Stock, (2) asserted, or that could have been asserted, in the Action or arising out of or relating to the facts, matters and transactions alleged in the Action, including, without limitation, claims for breach of contract, claims for breach of fiduciary duties, and claims for violations of the TBCA, and/or (3) arising out of the merger that is a component of the Settlement, including, without limitation claims related to the sufficiency of the merger process and the proxy statement, and claims for breach of the fiduciary duties; provided that the released claims do not include claims based upon the interpretation or enforcement of the terms of the Settlement.

In addition, the letter of transmittal, a form of which is attached to the merger agreement included as Annex B to the enclosed proxy statement, will contain a release using the same language. In consideration for the release of claims, as described in the Stipulation, current holders of Preferred Stock, including members of the Holder Class, are entitled to receive the merger consideration, subject to the terms and conditions set forth in the merger agreement and the Stipulation. Holders of our Series B Preferred Stock and Series C Preferred Stock will not be entitled to receive the merger consideration until after they surrender their certificate or certificates to the exchange agent, together with a duly completed and executed letter of transmittal and any other documents the exchange agent may reasonably require.

The Stipulation also provides for a Seller Class Settlement Fund of $6 million, which is distributable to members of the Seller Class, after taxes and notice and administration expenses (the "Net Seller Class Settlement Fund"), pursuant to a Plan of Allocation preliminarily approved by the Court. Members of the Seller Class must submit Proof of Claim Forms by the date set by the Court in the Preliminary Approval Order and specified in the Notice of Pendency of Class Action and Proposed Settlement ("Notice"). The Claims Administrator will determine each authorized claimant's share of the Net Seller Class Settlement Fund based upon each claimant's recognized loss, as defined in a Plan of Allocation. Any balance in the Net Seller Class Settlement Fund after distribution to authorized claimants will be distributed by the Claims Administrator pro rata to the members of the Holder Class, as set forth in the Plan of Allocation and the Stipulation.

Neither the Company nor our board of directors makes any recommendations as to whether holders of the Preferred Stock should vote in favor of the proposals to be considered at the special meeting for the following reasons, among others:

- **W2007 Grace I, LLC, the Company's parent and a defendant in the Action ("Company Parent"), owns 100% of the issued and outstanding common stock of the Company and thus controls the vote to elect the board of directors of the Company;**
- **PFD Holdings, an affiliate of the Company and defendant in the Action, owns a majority of the Series B Preferred Stock and the Series C Preferred Stock;**
- **The Goldman Sachs Group, Inc., an affiliate of the Company and defendant in the Action, owns all of the Series D Preferred Stock; and**
- **Approval of the merger agreement and the amendment to our Amended and Restated Charter are conditions to the Stipulation pursuant to which the defendants, including the Company, its directors, Company Parent, PFD Holdings and The Goldman Sachs Group, Inc. will be released.**

You must make your own decision as to how to vote your shares at the special meeting and are urged to carefully review all information contained or referred to in the enclosed proxy statement. You should consult

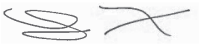
your own attorney, financial advisor and tax advisor, respectively, as to legal, financial or tax advice with respect to the proposals to be considered at the special meeting.

Please review the proxy statement accompanying this notice (including the annexes thereto) for a more complete description of the matters proposed to be acted on at the special meeting. We encourage you to read the proxy statement carefully in its entirety. If you have any questions or need assistance voting your shares, please call Morrow & Co., LLC, toll-free at (800) 662-5200 or (203) 658-9400. In addition, you may obtain information about us from our website at www.equityinns.com.

Whether or not you plan to attend the special meeting, please complete, date, sign and return, as promptly as possible, the enclosed proxy in the accompanying reply envelope, or submit your proxy by telephone or the Internet. Shareholders who attend the special meeting may revoke their proxies and vote at the special meeting. The enclosed proxy card contains instructions regarding all three methods of proxy authorization.

Dissenters' rights are available to holders of our Series B Preferred Stock and Series C Preferred Stock with respect to the amendment to our Amended and Restated Charter in the event of its implementation and with respect to the merger in the event it is consummated who do not vote in favor of the respective proposal and who perfect their dissenters' rights by complying with the provisions of Tennessee law. Please see the discussion under the caption "Dissenters' Rights" in the enclosed proxy statement for a discussion of the availability of dissenters' rights and the procedures required to be followed to assert these rights.

By Order of the Board of Directors,



Gregory Fay
Secretary

Neither the Securities and Exchange Commission nor any state regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in the accompanying proxy statement. Any representation to the contrary is a criminal offense.

The proxy statement is dated May 14, 2015 and is first being mailed to our shareholders on or about May 18, 2015.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE PROPOSALS

The following questions and answers are intended to address briefly some commonly asked questions regarding the special meeting and the proposals. These questions and answers may not address all questions that may be important to you as a shareholder in deciding how to vote. Please refer to the more detailed information contained elsewhere in this proxy statement (including the annexes hereto). In this proxy statement, the terms "the Company," "we," "our," "ours" and "us" refer to W2007 Grace Acquisition I, Inc.

Q: Why are these proxy materials being sent to me?

A: This document is being provided and the enclosed proxy is for use in connection with the upcoming special meeting of our shareholders. Pursuant to a Stipulation and Agreement of Settlement (the "Stipulation") dated October 8, 2014, as supplemented on December 4, 2014, and preliminarily approved by the United States District Court for the Western District of Tennessee (the "Court") on April 30, 2015, we agreed to adopt and present for a vote proposals to approve the amendment to our Amended and Restated Charter and the merger agreement. The Stipulation was negotiated in connection with the action *David Johnson, et al.* v. *W2007 Grace Acquisition I Inc., et al.*, No. 2:13-cv-02777 (W.D. Tenn.) brought against the Company, our board of directors, and certain of our equity holders and their affiliates (the "Action").

Neither the Company nor our board of directors makes any recommendations as to whether holders of our 8.75% Series B Cumulative Preferred Stock (the "Series B Preferred Stock") and 9.00% Series C Cumulative Preferred Stock (the "Series C Preferred Stock", and together with the Series B Preferred Stock, the "Preferred Stock") should vote in favor of the proposals to be considered at the special meeting for the following reasons, among others:

- W2007 Grace I, LLC, the Company's parent and a defendant in the Action ("Company Parent"), owns 100% of the issued and outstanding common stock of the Company and thus controls the vote to elect the board of directors of the Company;
- PFD Holdings, LLC, an affiliate of the Company and defendant in the Action ("PFD Holdings"), owns a majority of the Series B Preferred Stock and the Series C Preferred Stock;
- The Goldman Sachs Group, Inc. (the "GS Group"), an affiliate of the Company and defendant in the Action, owns all of the Series D Cumulative Preferred Stock (the "Series D Preferred Stock"); and
- Approval of the merger agreement and the amendment to our Amended and Restated Charter are conditions to the Stipulation pursuant to which the defendants, including the Company, its directors, Company Parent, PFD Holdings and the GS Group will be released.

You must make your own decision as to how to vote your shares at the special meeting and are urged to carefully review all information contained or referred to in the enclosed proxy statement. You should consult your own attorney, financial advisor and tax advisor, respectively, as to legal, financial or tax advice with respect to the proposals to be considered at the special meeting.

Q: When and where is the special meeting?

A: The special meeting is scheduled to be held at 10:00 a.m. Central Time, on July 14, 2015, unless it is postponed or adjourned. The special meeting will be a virtual meeting of shareholders which means that you will be able to participate in the special meeting and vote at the special meeting via live webcast by visiting www.virtualshareholdermeeting.com/982568.

Q: What matters will be voted on at the special meeting?

A: You are being asked to vote on the following proposals:

- whether to approve an amendment to our Amended and Restated Charter to limit the voting rights of holders of the Series B Preferred Stock and the Series C Preferred Stock;

- whether to approve the merger agreement pursuant to which we will be merged with and into W2007 Grace Acquisition II, Inc. ("Merger Sub"), a Tennessee corporation and wholly-owned subsidiary of W2007 Grace II, LLC ("Parent"), a Tennessee limited liability company owned by W2007 Finance Sub, LLC and Whitehall Parallel Global Real Estate Limited Partnership 2007 (W2007 Finance Sub, LLC and Whitehall Parallel Global Real Estate Limited Partnership 2007 collectively, "Whitehall"); and

- whether to adjourn the special meeting, if necessary or appropriate, including to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the amendment to our Amended and Restated Charter.

Q: What will holders of our Series B Preferred Stock and our Series C Preferred Stock receive in the merger?

A: If the merger is completed, each holder of Preferred Stock at the effective time of the merger will be entitled to receive $26.00 in cash, without interest and less any applicable withholding taxes (the "merger consideration") for each share of our Series B Preferred Stock and each share of our Series C Preferred Stock owned by you immediately prior to the merger (other than shares held by holders who have properly demanded and perfected their dissenters' rights under the Tennessee Business Corporation Act (the "TBCA") or shares held by the Company or one of its subsidiaries).

Q: Why am I being asked to approve the amendment to our Amended and Restated Charter and what vote of the shareholders is required?

A: The amendment will reduce the vote required to a simple majority of holders of Preferred Stock to take certain action under the Amended and Restated Charter which currently requires the affirmative vote or consent of at least 66 2/3% of the votes entitled to be cast by the holders of the Preferred Stock, voting as a single class. The amendment does not change the number of votes required for the merger to be approved, which is a majority of the outstanding shares of (1) our common stock, (2) our Series B Preferred Stock, (3) our Series C Preferred Stock, and (4) our Series D Preferred Stock, each voting as a separate class. The amendment will, however, facilitate certain actions to be taken, if necessary, in connection with facilitating the merger and the settlement contemplated by the Stipulation (the "Settlement") without further shareholder approval. For the amendment to our Amended and Restated Charter to be approved, holders of at least 66 2/3% of the outstanding shares of our Series B Preferred Stock and Series C Preferred Stock voting together as a single class must affirmatively vote "FOR" its approval. Each share of our Series B Preferred Stock and Series C Preferred Stock is entitled to one quarter of one (0.25) vote per share and will vote as a single class. There are 3,450,000 shares of our Series B Preferred Stock and 2,400,000 shares of our Series C Preferred Stock entitled to be voted, as a result at least 3,899,610 shares of our Series B Preferred Stock and Series C Preferred Stock voting together as a single class must vote to approve the amendment to our Amended and Restated Charter. The amendment to the Amended and Restated Charter will require the vote of holders of shares of the Series B Preferred Stock and the Series C Preferred Stock other than PFD Holdings. As described in this proxy statement, the amendment to the Amended and Restated Charter is a waivable condition to the Company's obligation to consummate the merger. Pursuant to the Stipulation, the defendants in the Action may elect, in their sole discretion, to terminate the Settlement if the amendment is not approved by the applicable requisite vote, and the merger will be abandoned.

Q: What vote is required for the shareholders to approve the merger agreement?

A: For the merger agreement to be approved, holders of at least a majority of the outstanding shares of (1) our common stock, (2) our Series B Preferred Stock, (3) our Series C Preferred Stock, and (4) our Series D Preferred Stock must each affirmatively vote "FOR" its approval, voting separately by class. Company

Parent beneficially owns and has the right to vote 100% of the 100 shares of the Company's issued and outstanding common stock and has delivered a unanimous written consent in accordance with the TBCA consenting to the approval of the merger agreement. PFD Holdings beneficially owns and has the right to vote approximately 51% of the outstanding shares of the Series B Preferred Stock and approximately 71% of the Series C Preferred Stock and thus holds a sufficient number of shares of the Series B Preferred Stock and the Series C Preferred Stock to approve the merger agreement for each of the respective classes voting separately without the vote of any other holders of the Series B Preferred Stock or the Series C Preferred Stock. The GS Group, an affiliate of the Company and a defendant in the Action beneficially owns and has the right to vote all of the 112 shares of the issued and outstanding shares of our Series D Preferred Stock and has delivered a unanimous written consent in accordance with the TBCA, consenting to the approval of the merger agreement. Accordingly, the approval by the shareholders of the merger agreement at the special meeting is assured without the affirmative vote of any other shareholder. Pursuant to the Stipulation, the defendants in the Action may elect, in their sole discretion, to terminate the Settlement if the merger or amendment to our Amended and Restated Charter is not approved by applicable requisite vote.

Q: What vote is required for the shareholders to approve the adjournment of the special meeting?

A: For the proposal to adjourn the special meeting, if necessary or appropriate, to be approved, with respect to each of our Series B Preferred Stock and our Series C Preferred Stock, the affirmative votes "FOR" the proposal must exceed the affirmative votes "AGAINST" the proposal (even if less than a quorum with respect to such voting group). Thus, the approval by the shareholders of the adjournment proposal at the special meeting is assured without the affirmative vote of any shareholder other than PFD.

Q: Who is entitled to vote at the special meeting?

A: Holders of record of our Series B Preferred Stock and our Series C Preferred Stock as of the close of business on May 11, 2015, the record date for the special meeting, are entitled to vote at the special meeting.

Q: What do I need to do now?

A: After carefully reading and considering the information contained in this proxy statement (including the annexes hereto), please vote your shares of Series B Preferred Stock and Series C Preferred Stock as soon as possible. You may vote your shares by returning the enclosed proxy by mail, or by voting by telephone or through the Internet. In addition, if you hold your shares through a broker or other nominee, you may be able to vote through the Internet or by telephone in accordance with instructions your broker or nominee provides. The proxy materials include detailed information on how to vote.

Q: How will proxy holders vote my shares?

A: If you properly submit a proxy prior to the special meeting, your shares of Series B Preferred Stock and Series C Preferred Stock will be voted as you direct. If you submit a proxy but no direction is otherwise made, your shares of the Preferred Stock will be voted "FOR" the approval of the amendment to our Amended and Restated Charter, "FOR" the approval of the merger agreement and "FOR" the adjournment of the special meeting.

Q: Can I change my vote?

A: After you submit a proxy for your shares, you may change your vote by revoking your proxy at any time before voting is closed at the special meeting. If you hold shares in your name as the shareholder of record, you may revoke your proxy by:

- submitting to our Secretary, prior to the voting of your proxy, a written notice of revocation, which is dated a later date than your proxy;

- sending a later-dated proxy (including by using the toll-free telephone number or Internet website address); or

- attending and voting at the special meeting. Virtual attendance at the shareholder meeting will be considered attendance "in person" for purposes of Tennessee law.

Simply attending the special meeting will not constitute revocation of a proxy. If your shares are held in street name through a broker or other nominee, you should follow the instructions of your broker or nominee regarding revocation of proxies. If your broker or nominee allows you to grant a proxy by telephone or the Internet, you may be able to change how your shares are voted by granting another proxy by telephone or the Internet.

Q: How will abstentions and broker non-votes be counted?

A: Absent specific instructions from the beneficial owner of shares, brokers may not vote the shares with respect to any of the proposals to be voted on at the special meeting. Shares of our Series B Preferred Stock and our Series C Preferred Stock held by brokers for customers who have not provided voting instructions on a matter as to which the broker lacks discretion to vote the customer's shares are referred to generally as "broker non-votes." For purposes of determining approval of the amendment to the Amended and Restated Charter and the merger agreement, abstentions and broker non-votes will have the same effect as a vote "AGAINST" the amendment to the Amended and Restated Charter or the merger agreement. For purposes of determining approval of the proposal to adjourn the special meeting, if necessary or desirable, abstentions will not affect the outcome as the vote is determined based on a majority of votes cast with respect to a particular voting group of our Series B Preferred Stock and/or our Series C Preferred Stock.

Q: Will I have dissenters' rights in connection with the amendment to our Amended and Restated Charter?

A: Yes. As a holder of our Series B Preferred Stock and/or our Series C Preferred Stock, you are entitled to exercise dissenters' rights under Section 48-23-102 of the TBCA in connection with the amendment to our Amended and Restated Charter in the event of its implementation if written notice of intent to demand payment is properly delivered to us before the vote on the amendment to our Amended and Restated Charter is taken, you do not vote in favor of the amendment and you otherwise meet certain conditions and satisfy certain procedures set forth in the TBCA and described in this proxy statement under the caption "Dissenters' Rights." A copy of the relevant statutory provisions is attached to this proxy statement as Annex D.

Q: Will I have dissenters' rights as a result of the merger?

A: Yes. As a holder of our Series B Preferred Stock and/or our Series C Preferred Stock, you are entitled to exercise dissenters' rights under Section 48-23-102 of the TBCA in connection with the merger in the event it is consummated if written notice of intent to demand payment is properly delivered to us before the vote on the merger is taken, you do not vote in favor of the merger and you otherwise meet certain conditions and satisfy certain procedures set forth in the TBCA and described in this proxy statement under the caption "Dissenters' Rights." A copy of the relevant statutory provisions is attached to this proxy statement as Annex D.

Q: How do dissenters' rights affect the merger?

As described in this proxy statement under the caption "Approval of the Merger Agreement (Proposal 2) — Conditions to the Merger," the Company's waivable obligation to consummate the merger is conditioned upon, among other things, the holders of no more than 7.5% of the outstanding shares of the Preferred Stock delivering (and not withdrawing), prior to the special meeting, written notice of their intent to demand payment if the merger is effectuated, pursuant to Section 48-23-202 of the TBCA (provided that if this condition is not satisfied as of the special meeting, this condition will nonetheless be deemed satisfied

if within two business days following the special meeting holders of the Series B Preferred Stock and Series C Preferred Stock have taken actions irrevocably causing holders with fewer than 7.5% of the outstanding shares of the Preferred Stock in the aggregate to be eligible to exercise dissenters' rights pursuant to Chapter 23 of the TBCA). Accordingly, the exercise of dissenters' rights by holders of Preferred Stock not owned by PFD Holdings may result in the merger not being consummated and the Stipulation being terminated. If you timely and validly exercise your dissenters' rights, you are not a member of the Holder Class and are excluded from the Settlement.

Q: Does the amendment to the Amended and Restated Charter Alter the Vote Required to Approve the Merger Agreement?

A: No. If approved, we expect to file the articles of amendment to the Amended and Restated Charter with the Secretary of State of the state of Tennessee after the Stipulation has been finally approved by the District Court for the Western District of Tennessee, and a final order and judgment that is no longer appealable with respect to the Stipulation has been entered. As described in more detail below in this proxy statement under the caption "Approval of the Merger Agreement (Proposal 2)—Conditions to the Merger," approval of the amendment to our Amended and Restated Charter is a waivable condition precedent to the consummation of the merger pursuant to the merger agreement. While the amendment to the Amended and Restated Charter is a waivable condition to the consummation of the merger, the amendment to the Amended and Restated Charter will not alter the vote required to approve the merger agreement as described in this proxy statement under the caption "The Special Meeting—Vote Required".

Q: When is the merger expected to be completed?

A: We are working towards completing the merger as quickly as possible. The merger cannot be completed until a number of conditions are satisfied or waived as described in this proxy statement under the caption "Approval of the Merger Agreement (Proposal 2)—Conditions to the Merger." A condition to the Company's obligation to consummate the merger, which is non-waivable, is that the Stipulation has been finally approved by the District Court for the Western District of Tennessee, and a final order and judgment that is no longer appealable with respect to the Stipulation has been entered. We cannot specify when, or assure you that, all conditions to closing will be satisfied or waived.

Q: What if the merger is not consummated or the terms and conditions of the Stipulation are otherwise not complied with or satisfied?

A: If the merger is not consummated and the merger agreement is terminated, or if the terms and conditions of the Stipulation are not otherwise complied with and satisfied, the Stipulation will be terminated and you will continue to hold your shares of our Series B Preferred Stock and/or our Series C Preferred Stock. The sale of hotels to affiliates of American Realty Capital Hospitality Trust, Inc. (the "ARC Buyers") described in this proxy statement under the caption "Certain Background Information Regarding the Company and the Proposals —ARC Transaction" (the "ARC Transaction") was consummated on February 27, 2015. On March 30, 2015, we announced that W2007 Equity Inns Senior Mezz, LLC ("Senior Mezz"), an entity in which the Company has a 3% interest, had entered into a contract (the "Excluded Hotel Sale Agreement") to sell the 10 hotels which were not included in the transaction with the ARC Buyers (the "Excluded Hotel Assets") for a combined purchase price of $100 million. The Excluded Hotel Sale Agreement was terminated by the purchasers on May 6, 2015 (the ARC Buyers had previously elected to exclude the same hotels from the ARC Transaction). While the Sellers (as defined below) expect to sell the Excluded Hotel Assets, there can be no assurance as to whether or when the Excluded Hotel Assets will be sold, the form of consideration which may be received in respect of the Excluded Hotel Assets or whether the consideration which may be received in respect of the Excluded Hotel Assets will be greater or less than the purchase price in the Excluded Hotel Sale Agreement. Even if a transaction for the Excluded Hotel Assets does occur, there can be no assurance as to when a distribution from such sale proceeds will be received by the Company. In the event that the merger is not consummated, we would likely seek to distribute any net proceeds we received and retained from any such sales. We are also faced with the possibility of having to register as an "investment company" under the Investment Company Act of 1940, as amended (the "Investment Company Act"). We expect to take actions to ensure that does not occur, which may include

the merger, or the disposition of our investment securities, including through liquidation, or the acquisition of sufficient assets that are not investment securities in order for us not to be deemed an investment company under the Investment Company Act. See information described under the caption "Cautionary Statements".

Q: How does the ARC Transaction affect the Stipulation or the proposals to be considered at the special meeting?

A: The ARC Transaction was consummated on February 27, 2015. As a result, the Company no longer is engaged in the business of operating hotels, other than its 3% interest of the Excluded Hotel Assets. As described in this proxy statement under the caption "Certain Background Information Regarding the Company and the Proposals—ARC Transaction," the proceeds received in the ARC Transaction totaled $131.4 million consisting of (i) $22.2 million cash at closing subject to a post-closing adjustment to reflect actual proration of certain operating items in respect of the 20 Trust Hotels in which the Company had an interest of 100%; (ii) Class A Interests (as defined below) with Initial Capital Contributions (as defined below) of $99.8 million; and (iii) $12.9 million in respect of the 96 other hotels sold in the ARC Transaction in which the Company had an interest of 3%; offset by $3.5 million of net accrued or contingent costs related to the ARC Transaction (as described below). We estimate the proceeds that could be distributed to the holders of the Preferred Stock over time, including PFD Holdings, as a result of the ARC Transaction would be approximately $22.46 per share assuming the Initial Capital Contributions of the Class A Interests are repaid in full and excluding (a) any Preferred Return (as defined below) that may be received in connection with the Class A Interests, (b) a present value discount to the repayment of the Class A Interests or any Preferred Return which such payments will occur over time, (c) any value attributed to the Excluded Hotel Assets, (d) any cash, other working capital assets and liabilities of the Company which might otherwise result in a distribution to holders of the Preferred Stock in connection with the liquidation of the Company and (e) any income tax effects which may be applicable to proceeds received by the Company (the "Estimated Proceeds over Time from the ARC Transaction").

We estimate the present value (applying a 15% discount rate) of the Estimated Proceeds over Time from the ARC Transaction plus the Preferred Return, would be approximately $19.23 per share to the holders of the Preferred Stock, including PFD Holdings (the "Estimated Present Value of Proceeds from the ARC Transaction"). The Estimated Present Value of Proceeds from the ARC Transaction assumes that interest is collected monthly and 50% of the Initial Capital Contribution is collected 36 months after February 27, 2015, the closing date of the ARC Transaction, and the remaining 50% of the Initial Capital Contribution is collected 48 months after the closing of the ARC Transaction. The Estimated Present Value of Proceeds from the ARC Transaction excludes (i) any value attributed to the Excluded Hotel Assets, (ii) any cash, other working capital assets and liabilities of the Company which might otherwise result in a distribution to holders of the Preferred Stock in connection with the liquidation of the Company and (iii) any income tax effects which may be applicable to proceeds received by the Company.

Post-closing adjustments related to the ARC Transaction are expected to be concluded on or about May 27, 2015. The working capital of the Company and Senior Mezz may be affected by these adjustments, the impact and magnitude of which cannot be estimated prior to completion of the post-closing review.

Assuming the proceeds that would be received in respect of the Excluded Hotel Assets equal the $100.0 million that was provided for in the Excluded Hotel Sale Agreement (which has since been terminated) less $2.0 million of estimated transaction expenses (not taking into account in each case any present value discount), the Company estimates that the potential proceeds in respect of such hotels would result in approximately $0.50 per share of Preferred Stock (the "Estimated Potential Proceeds from the Sale of the Excluded Hotel Assets"). The sum of the Estimated Proceeds over Time from the ARC Transaction and the Estimated Potential Proceeds from the Sale of the Excluded Hotel Assets would be approximately $22.96 per share of Preferred Stock. The sum of the Estimated Present Value of Proceeds from the ARC Transaction and the Estimated Potential Proceeds from the Sale of the Excluded Hotel Assets would be approximately $19.73 per share of Preferred Stock.

The Excluded Hotel Sale Agreement was terminated by the purchasers on May 6, 2015 (the ARC Buyers had previously elected to exclude the same hotels from the ARC Transaction). While the Sellers expect to sell the Excluded Hotel Assets, there can be no assurance as to whether or when the Excluded Hotel Assets will be sold, the form of consideration which may be received in respect of the Excluded Hotel Assets or whether the consideration which may be received in respect of the Excluded Hotel Assets will be greater or less than the purchase price in the Excluded Hotel Sale Agreement. Even if a transaction for the Excluded Hotel Assets does occur, there can be no assurance as to when a distribution from such sale proceeds will be received by the Company.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, the exchange agent will send you a formal letter of transmittal and written instructions for exchanging your stock certificates for the merger consideration. You must return your stock certificates as described in these instructions along with a properly executed letter of transmittal. You will receive your payment after the exchange agent receives your stock certificates (or you otherwise comply with the requirements set out in the letter of transmittal), together with the documents requested in the instructions including a properly executed letter of transmittal. A form of letter of transmittal is attached to the merger agreement included as Annex B to this proxy statement.

Q: Who can help answer my questions?

A: If you have questions about the special meeting, the Stipulation, the amendment to our Amended and Restated Charter or the merger after reading this proxy statement, you should call Morrow & Co., LLC, toll-free at (800) 662-5200 or (203) 658-9400.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This proxy statement (including the annexes attached hereto) contains certain forward-looking statements, including statements relating to the Stipulation, the consummated ARC Transaction, the amendment to our Amended and Restated Charter, the merger, the merger agreement and the other transactions contemplated by the merger agreement, including statements concerning the settlement of certain litigation including pursuant to the Stipulation, the anticipated closing date of the merger, the tax consequences of the merger and the other transactions contemplated by the merger agreement and the possibility that any of the conditions to the closing of the merger, including those outside our control, will be satisfied. These forward-looking statements are based on current expectations, beliefs, assumptions, estimates and projections. Words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "projects" and variations of such words and similar words also identify forward-looking statements. We also may provide oral or written forward-looking information in other materials released by us to the public.

You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control. The risks and uncertainties discussed in this proxy statement, include, among other things:

- the inability to satisfy the conditions of the Stipulation and the uncertainty associated with the ongoing litigation if the Stipulation is terminated;
- the inability of the ARC Buyers to make payments in respect of the Initial Capital Contributions;
- the uncertainty as to when or whether the Excluded Hotel Assets will be sold;
- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement;
- the outcome of any legal proceedings that have been or may be instituted;
- the inability to complete the merger and the other transactions contemplated by the merger agreement due to the failure to obtain the requisite shareholder approval or the failure to satisfy other conditions to completion of the merger and the other transactions contemplated by the merger agreement; and
- the failure of the merger and the other transactions contemplated by the merger agreement to be completed for any other reason.

These risks and uncertainties should be considered in evaluating any forward-looking statements contained in this proxy statement. Although we believe that the expectations reflected in any forward-looking statements that we made are based upon reasonable assumptions, these risks, uncertainties and other factors may cause material differences from our expectations expressed or implied by such forward-looking statements. Accordingly, there can be no assurance that these expectations will be realized.

We undertake no obligation to update or revise forward-looking statements contained in this proxy statement to reflect changes in underlying assumptions or factors, new information, future events or otherwise. All forward-looking statements speak only as of the date of this proxy statement.

All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

THE SPECIAL MEETING

Date, Time and Place

This proxy statement is being furnished for use in connection with the special meeting, and at any adjournments or postponements of that meeting. The special meeting will be held on July 14, 2015, at 10:00 a.m. Central Time. The special meeting will be a virtual meeting of shareholders which means that you will be able to participate in the special meeting and vote at the special meeting via live webcast by visiting www.virtualshareholdermeeting.com/982568.

Matters to be Considered

At the special meeting, holders of the Preferred Stock will be asked to consider and approve (1) an amendment to our Amended and Restated Charter to limit the voting rights of holders of our Series B Preferred Stock and Series C Preferred Stock; (2) the merger agreement pursuant to the terms and subject to the conditions of the merger agreement; and (3) the adjournment of the special meeting, if necessary or appropriate, including to solicit additional votes in favor of the proposals to approve the amendment to our Amended and Restated Charter.

Record Date and Quorum Requirement; Broker Non-Votes

We have set the close of business on May 11, 2015 as the record date for determining those holders of the Preferred Stock who are entitled to notice of, and to vote at, the special meeting. As of the record date, 3,450,000 shares of our Series B Preferred Stock and 2,400,000 shares of our Series C Preferred Stock were outstanding.

The presence at the special meeting, in person or by proxy, of the holders of a majority of the outstanding shares of each of our Series B Preferred Stock and our Series C Preferred Stock on the record date will constitute a quorum with respect to such class, allowing us to conduct the business of the special meeting. Whether or not a quorum is met with respect to the proposals is entirely within the control of affiliates of the Company.

A properly executed proxy marked "ABSTAIN" and a broker non-vote will be counted for purposes of determining whether a quorum is present at the special meeting but will not be voted "FOR" any of the proposals to be voted on at the special meeting. Shares of the Preferred Stock held by brokers for customers who have not provided voting instructions on a matter as to which the broker lacks discretion to vote the customer's shares are referred to generally as "broker non-votes." Brokers do not have discretion to vote your shares "FOR" or "AGAINST" approval of any of the proposals to be voted on at the special meeting. As a result, abstentions and broker non-votes will have the same effect as a vote "AGAINST" the proposal to approve the amendment to our Amended and Restated Charter or the merger agreement. However, abstentions will not affect the outcome of any vote regarding the adjournment, if necessary or appropriate.

Vote Required

The proposal to approve the amendment to our Amended and Restated Charter requires the affirmative vote of the holders of at least 66 2/3% of the outstanding shares of our Series B Preferred Stock and Series C Preferred Stock that are entitled to vote at the special meeting voting together as a single class. Each share of our Series B Preferred Stock and Series C Preferred Stock is entitled to one quarter of one (.25) vote per share and will vote as a single class.

The proposal to approve the merger agreement requires the affirmative vote of the holders of at least a majority of the outstanding shares of each class of our capital stock that are entitled to vote at the special meeting, voting separately by class. Company Parent beneficially owns and has the right to vote 100% of the 100 shares of the Company's issued and outstanding common stock and has delivered a unanimous written consent in accordance with the TBCA consenting to the approval of the merger agreement. PFD Holdings beneficially owns and has the right to vote approximately 51% of the outstanding shares of the Series B Preferred Stock and approximately 71% of the Series C Preferred Stock and thus holds a sufficient number of shares of the Series B Preferred Stock and the Series C Preferred Stock to approve the merger for each of the respective classes voting separately without the vote

of any other holders of the Series B Preferred Stock or the Series C Preferred Stock. The GS Group, an affiliate of the Company and a defendant in the Action, beneficially owns and has the right to vote all of the 112 shares of the issued and outstanding shares of the Series D Preferred Stock and has delivered a unanimous written consent in accordance with the TBCA, consenting to the approval of the merger agreement. Accordingly, the approval by the shareholders of the merger agreement at the special meeting is assured without the affirmative vote of any other shareholder.

For the proposal to adjourn the special meeting, if necessary or appropriate, including to solicit additional proxies, to be approved, with respect to each of our Series B Preferred Stock and our Series C Preferred Stock, the affirmative votes by holders of a particular class "FOR" the proposal must exceed the affirmative votes "AGAINST" the proposal by the holders of such class (even if less than a quorum with respect to such class). Thus, the approval by the shareholders of the adjournment proposal at the special meeting is assured without the affirmative vote of any shareholder other than PFD Holdings.

If you hold your shares of Series B Preferred Stock or Series C Preferred Stock in "street name" (that is, through a broker or other nominee), your broker or nominee will not vote your shares unless you provide instructions to your broker or nominee on how to vote your shares. You should instruct your broker or nominee how to vote your shares by following the directions provided by your broker or nominee.

Because the required votes to approve the amendment to our Amended and Restated Charter and to approve the merger agreement are based on the number of shares of the applicable voting group outstanding rather than on the number of votes cast, if you fail to authorize a proxy to vote your shares by completing and returning the enclosed proxy card, fail to vote at the special meeting, fail to instruct your broker or nominee on how to vote or abstain from voting, it will have the same effect as a vote "AGAINST" the approval of the amendment to our Amended and Restated Charter or the merger agreement as applicable.

Voting by Proxy; Revocability of Proxy

Even after you have properly submitted your proxy card, you may change your vote at any time before the proxy is voted by delivering to our Secretary either a notice of revocation or a duly executed proxy bearing a later date. In addition, the powers of the proxy holders will be suspended with respect to your proxy if you attend the special meeting in person and notify the chairman of the special meeting that you would like your proxy revoked. Attendance at the special meeting will not by itself revoke a previously granted proxy. If you have instructed a broker or nominee to vote your shares, you must follow the directions received from your broker or nominee to change your proxy instructions. Also, if you elect to vote at the special meeting and your shares are held by a broker or nominee, you must obtain a legal proxy from the broker or nominee of your shares to be entitled to vote those shares at the meeting.

Adjournments and Postponements

Although it is not currently expected, the special meeting may be adjourned or postponed with respect to our Series B Preferred Stock or our Series C Preferred Stock for the purpose of soliciting additional proxies. Any adjournment may be made without notice, other than by an announcement made at the special meeting of the time, date and place of the adjourned meeting, unless a new record date must be set. Whether or not a quorum exists, holders of at least a majority of the votes cast by the holders of our Series B Preferred Stock or our Series C Preferred Stock present in person or represented by proxy at the special meeting and entitled to vote at the special meeting may vote to adjourn the special meeting with respect to their respective shares of our Series B Preferred Stock and/or our Series C Preferred Stock. The chair of the special meeting may also adjourn the special meeting with respect to our Series B Preferred Stock and/or our Series C Preferred Stock for which a quorum is not obtained. Any adjournment or postponement of the special meeting, including for the purpose of soliciting additional proxies, will allow our shareholders who have already submitted their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

Solicitation of Proxies

This proxy solicitation is being made and paid for by us pursuant to the terms of the Stipulation, a copy of which is attached hereto as Annex C.

Other Information

No persons have been authorized to give any information or to make any representations other than those contained in this proxy statement and, if given or made, such information or representations must not be relied upon as having been authorized by us or any other person. This proxy statement is dated May 14, 2015. You should not assume that the information contained in this proxy statement is accurate as of any date other than that date, and the mailing of this proxy statement to shareholders shall not create any implication to the contrary. This proxy statement does not constitute a solicitation of a proxy in any jurisdiction where, or to or from any person to whom, it is unlawful to make a proxy solicitation.

CERTAIN BACKGROUND INFORMATION REGARDING THE COMPANY AND THE PROPOSALS

Certain Information Concerning the Company, Company Parent and the Operating Partnership

The summary of the Company and certain transactions described in this section do not purport to be complete and are qualified in their entirety by reference to our financial statements which are available in our Annual Report on Form 10-K for the year ended December 31, 2014 that we have filed with the Securities and Exchange Commission (the "SEC") and attached to this proxy statement as Annex E, and the Original Sale Agreement and the Sale Agreement which are available as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2014 or upon request. Shareholders may request information by mailing such request to: 6011 Connection Drive, Irving, Texas 75039 (attention: Equity Inns asset manager). If an email address is provided, a Company representative will email you the requested documents at no charge. If no email address is provided, or paper copies are requested, the Company will send you the requested documents by mail at no charge. In addition, the Sale Agreement was filed as an exhibit to the Current Report on Form 8-K filed by the Company on March 5, 2015 with the SEC.

All documents that we file with the SEC on or after the date of this proxy statement pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), prior to the special meeting that relate to periods or events occurring in 2015, will be deemed to be incorporated by reference into this proxy statement and to be a part of it from the date of filing of such documents. We are not, however, incorporating by reference any documents or portions thereof, whether specifically listed below or filed in the future, that are not deemed "filed" with the SEC under its rules and regulations, including information furnished pursuant to Item 2.02 or 7.01 of Form 8-K. Any statement contained in a document incorporated or deemed to be incorporated by reference in this proxy statement shall be deemed to be modified or superseded for purposes of this proxy statement to the extent that a statement contained in it or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this proxy statement modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this proxy statement.

We incorporate by reference the following documents that we have filed with the SEC, and any filings that we make with the SEC in the future, under the Exchange Act, until the special meeting has been held:

- our Annual Report on Form 10-K for the year ended December 31, 2014; and
- our Current Reports on Form 8-K or Form 8-K/A filed with the SEC on March 5, 2015, March 19, 2015, March 30, 2015, April 22, 2015, May 1, 2015 and May 11, 2015.

These documents, as well as various other reports, proxy statements and other information, may also be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding the company and other issuers that file electronically with the SEC. The address of the SEC's internet site is www.sec.gov.

Company Structure and Business. The Company, through its subsidiaries, used to own premium-branded, limited-service hotels in the upscale and upper midscale segments of the lodging industry, as these segments are currently defined by Smith Travel Research, a leading source of lodging industry data. The Company and W2007 Equity Inns Gen-Par, LLC ("Gen-Par"), a wholly-owned subsidiary of Company Parent, are the general partners of the operating partnership, W2007 Equity Inns Partnership, L.P., a Tennessee limited partnership (the "Operating Partnership"), each holding a 1% general partnership interest. Company Parent is the limited partner of the Operating Partnership, holding a 98% limited partnership interest. The Company also owns 100% of W2007 Equity Inns Trust, a Maryland trust (the "Trust"). The Company does not have any operations independent from its ownership interest in the Operating Partnership and the Trust, and since the closing of the ARC Transaction, none of the Company or any of its subsidiaries has any active operations. At December 31, 2014, a group of 106 hotels (collectively, the "Senior Mezz Hotels") were owned by wholly-owned subsidiaries of Senior Mezz. All but the Excluded Hotel Assets were sold on February 27, 2015 in the ARC Transaction. Senior Mezz is owned 97% by

WNT Holdings, LLC ("WNT") and 3% by the Operating Partnership indirectly; therefore WNT will receive 97% of distributable proceeds from Senior Mezz and the Operating Partnership will receive 3% of distributable proceeds from Senior Mezz when any amounts are distributed by Senior Mezz. At December 31, 2014, a group of 20 hotels (collectively, the "Trust Hotels") were owned by various limited partnerships with various corporations as their sole general partners, which corporations were wholly-owned by the Trust. These general partners each own a 1% ownership interest in the respective limited partnerships and the Operating Partnership owns the remaining 99% ownership interest in the respective limited partnerships. All of the Trust Hotels were sold on February 27, 2015 in the ARC Transaction.

Our common stock is 100% owned by Company Parent, which is wholly-owned by Whitehall. The general partner of Whitehall Parallel Global Real Estate Limited Partnership 2007 and of the partnerships owning W2007 Finance Sub, LLC is a wholly-owned subsidiary of the GS Group and, therefore, is an affiliate of the GS Group. The GS Group in turn also controls Goldman Sachs Mortgage Company ("GSMC"). Consequently, GSMC is also an affiliate of Whitehall. WNT is wholly-owned by Whitehall and is thus an affiliate of Company Parent and the Company. As the Company holds no direct or indirect equity interest in WNT, shares of the Preferred Stock do not hold any direct or indirect equity interest in WNT.

2007 Mergers. On October 25, 2007, pursuant to the Agreement and Plan of Merger, dated as of June 20, 2007, by and among Company Parent, the Company, Grace II, L.P., the Operating Partnership and Equity Inns, Inc. ("Equity Inns"), Equity Inns merged with and into the Company, with the Company being the surviving corporation, and Grace II, L.P. merged with and into the Operating Partnership, with the Operating Partnership being the surviving partnership (such mergers, collectively, the "2007 Mergers"). In the 2007 Mergers, each share of Series B Preferred Stock of Equity Inns ("ENN Series B Shares") and each share of Series C Preferred Stock of Equity Inns ("ENN Series C Shares") was converted into the right to receive one share of our Series B Preferred Stock and one share of our Series C Preferred Stock, respectively. Each share of our Series B Preferred Stock and Series C Preferred Stock has identical rights, preferences, limitations and restrictions as compared to the ENN Series B Shares and ENN Series C Shares, respectively.

Prior to the 2007 Mergers, Equity Inns, through its wholly-owned subsidiary, the Trust was the sole general partner of the Operating Partnership, holding an approximate 98% interest, and certain third parties were the limited partners of the Operating Partnership, holding the remaining ownership interests. Following the 2007 Mergers, the Company and Gen-Par replaced Equity Inns as general partners of the Operating Partnership, each holding a 1% general partnership interest, and Company Parent became a limited partner of the Operating Partnership, holding a 98% limited partnership interest.

Following the 2007 Mergers, the Company and Company Parent entered into a Keepwell Agreement, effective as of the date of the 2007 Mergers (the "Keepwell Agreement"), pursuant to which Company Parent agreed to make such cash payments to the Company as are necessary to enable the Company to satisfy its obligations to the holders of the Preferred Stock in accordance with the Company's charter when the Company determines, or is legally compelled, to satisfy such obligations. To date, no payments have been made and none are due under the Keepwell Agreement. The Keepwell Agreement may be terminated by Company Parent at any time upon 30 days' prior written notice. The Keepwell Agreement does not provide for any third-party beneficiaries.

REIT Election. On March 31, 2008, pursuant to Section 856(g)(2) of the Internal Revenue Code of 1986, as amended (the "Code"), with authorization from our sole common shareholder and the unanimous consent of the our board of directors, we revoked our election under Section 856(c)(1) of the Code to be a REIT for the taxable year ending December 31, 2008. Consequently, subsequent to December 31, 2007, we have been subject to income taxes at statutory corporate rates.

Certain Debt Transactions. In June 2009, as part of a series of recapitalization transactions, GSMC, one of our lenders at the time, in exchange for the cancellation of $544.8 million of the indebtedness incurred in connection with the 2007 Mergers, acquired an option to purchase, with no strike price, a 97% equity interest in Senior Mezz which indirectly owns all of the Senior Mezz Hotels (the "Purchase Option").

In December 2010, we negotiated a modification of our existing indebtedness with certain of our debt holders and subsequently entered into a modification agreement (the "Modification Agreement"). Among other

things, the Modification Agreement provided that substantially all of the cash flows from the Senior Mezz Hotels must be directed to accounts controlled by the lenders holding such loans. The Modification Agreement also specified certain limited uses for the cash flow "trapped" by such lenders. Annually in August, all remaining cash in the working capital reserve account controlled by such lenders in excess of a specified amount, as defined in the Modification Agreement, was to be used to pay-down principal due under our mortgage loan.

In February 2012, the Purchase Option, which was originally scheduled to expire in June 2015, was amended to expire in July 2021, or such other later date if the maturity of our then existing debt was further extended. In July 2012, WNT acquired the Purchase Option from GSMC's affiliate for $175 million.

On April 11, 2014, we refinanced certain of our then existing indebtedness. As a result of these refinancing transactions, the Senior Mezz Hotels are currently encumbered by debt in an aggregate principal amount of $976 million, which amount includes (i) a loan in original principal amount of $865 million made by German American Capital Corporation to W2007 Equity Inns Realty, L.P. and W2007 Equity Inns Realty, LLC (the "Deutsche Bank Loan") and (ii) a loan in original principal amount of $111 million made by German American Capital Corporation to WNT Mezz I, LLC (the "Mezzanine Loan"). In connection with this refinancing, the "cash trap" under our previous mortgage and the cash flow pledge of the Trust Hotels ceased. Each of the Deutsche Bank Loan and the Mezzanine Loan were assumed by the ARC Buyers in the ARC Transaction pursuant to the Sale Agreement.

Also on April 11, 2014, WNT exercised the Purchase Option in connection with the refinancing.

Certain Matters Related to the Preferred Stock. As described above, since the consummation of the 2007 Mergers, certain of our indebtedness documents have at various times contained covenants restricting the distribution of cash generated from the operations of the Senior Mezz Hotels and the Trust Hotels that restricted the ability of the Operating Partnership and the Trust to distribute cash to the Company. From May 2008 until the refinancing of our indebtedness, the Company did not make any dividend payments on the Preferred Stock due to such restrictive covenants. Since the refinancing, while the Company is no longer subject to covenants that would prevent the payment of dividends, in light of the Company's and its subsidiaries' cash position, the Company's and its subsidiaries' pending liabilities, including the potential obligation of the Company to pay the merger consideration contemplated under the Stipulation and Settlement and outstanding debt and other general corporate purposes, the Company does not expect to commence payment of dividends or otherwise distribute the proceeds of the ARC Transaction. Decisions regarding future dividends on the shares of Preferred Stock will be made quarterly by our board of directors based on the facts and information available at that time.

For so long as the merger and Stipulation are not terminated, the Company does not expect to commence payment of dividends or to otherwise distribute the net proceeds from the ARC Transaction, but instead expects to use the net proceeds for general corporate purposes, including satisfaction of liabilities. In addition, the Company has used the net proceeds to retire outstanding debt. If the merger is consummated, holders of shares of the Preferred Stock, who do not exercise appraisal rights, will be entitled to receive only the merger consideration (together with any payments to which they may be entitled to as members of the Seller Class or the Holder Class).

As of December 31, 2014, the Company had $86,312,500 in accumulated, undeclared dividends on the Preferred Stock. As of December 31, 2014, the accumulated, undeclared preferred stock dividends were $14.58 per share of our Series B Preferred Stock and $15.00 per share of our Series C Preferred Stock. To date, the Company has called special shareholder meetings on June 3, 2010, December 14, 2010 and March 27, 2012 to permit the holders of the Preferred Stock to elect two additional board members; however, at each meeting a quorum was not achieved and, therefore, additional directors have not been elected. Other than approximately 17,000 shares currently held by Broad Street Principal Investments, LLC, an affiliate of the GS Group, none of PFD Holdings or any of its affiliates owned any shares of Preferred Stock at the record dates for each of these respective meetings.

Financial and Other Information About the Company

Audited consolidated financial statements of the Company as of December 31, 2014, 2013 and 2012 and for each of the four years ended December 31, 2014 are included in our Annual Report on Form 10-K for the year ended December 31, 2014 that we have filed with the SEC and are attached to this proxy statement as Annex E. Unaudited pro forma condensed consolidated balance sheet of the Company as of December 31, 2014 and unaudited pro forma

condensed consolidated statement of operations for the year ended December 31, 2014 to reflect the consummation of the ARC Transaction are included in our Current Report on Form 8-K/A that we filed with the SEC on May 1, 2015 and are attached to this proxy statement as Annex F. Holders of our Series B Preferred Stock and our Series C Preferred Stock are urged to carefully review all information in the proxy statement (including the annexes hereto).

ARC Transaction

On May 23, 2014, certain subsidiaries of the Company and WNT (collectively, the "Sellers") entered into a Real Estate Sale Agreement (the "Original Sale Agreement") with the ARC Buyers pursuant to which the Sellers agreed to sell 126 hotels for a combined purchase price of $1.925 billion (of which $347 million was allocated to the Trust Hotels and $1.578 billion was allocated to the Senior Mezz Hotels), subject to certain adjustments. On November 11, 2014, the Sellers and the ARC Buyers agreed to amend and restate the Original Sale Agreement (as so amended and further amended by the First Amendment dated February 13, 2015 and the Letter Agreement dated February 24, 2015, the "Sale Agreement"), pursuant to which the ARC Buyers agreed to purchase 116 of the 126 Hotels (all 20 of the Trust Hotels and 96 of the Senior Mezz Hotels) for $1.808 billion (of which $347 million was allocated to the Trust Hotels and $1.461 billion to the Senior Mezz Hotels being sold).

The ARC Transaction was consummated on February 27, 2015, as described in the Current Report on Form 8-K, filed by the Company on March 5, 2015. The 116 Hotels that were sold under the Sale Agreement are referred to as the "Sold Hotels," and the 10 Hotels which were excluded from the ARC Transaction are referred to as the "Excluded Hotel Assets." Nine of the ten Excluded Hotel Assets are older "generation 1" Residence Inn properties, which are expected to require greater capital expenditures than the properties which were sold in the Trust Hotel and Senior Mezz Hotel portfolios. The remaining Excluded Hotel Asset is a Homewood Suites by Hilton whose franchise license expires in October 2017. On March 30, 2015, we announced that Senior Mezz had entered into the Excluded Hotel Sale Agreement to sell the Excluded Hotel Assets for a combined purchase price of $100 million. The Excluded Hotel Sale Agreement was terminated by the purchasers on May 6, 2015 (the ARC Buyers had previously elected to exclude the same hotels from the ARC Transaction). While the Sellers expect to sell the Excluded Hotel Assets, there can be no assurance as to whether or when the Excluded Hotel Assets will be sold, the form of consideration which may be received in respect of the Excluded Hotel Assets or whether the consideration which may be received in respect of the Excluded Hotel Assets will be greater or less than the purchase price in the Excluded Hotel Sale Agreement. Even if a transaction for the Excluded Hotel Assets does occur, there can be no assurance as to when a distribution from such sale proceeds will be received by the Company.

In connection with the transactions contemplated by the Sale Agreement, the board of directors of the Company received an opinion from Deutsche Bank Securities Inc. ("DBSI") to the effect that, as of November 18, 2014, and subject to the assumptions, limitations, qualifications and conditions set forth in such opinion, the consideration to be received by the Company from the sale contemplated by the Sale Agreement was fair, from a financial point of view, to the Company. DBSI's opinion did not address any other terms or conditions of the sale, including any adjustments, prorations or credits to the consideration pursuant to the Sale Agreement. In addition, DBSI did not express an opinion with respect to the selection of the Excluded Hotel Assets. The opinion was delivered solely for the use and benefit of the Company's board of directors in connection with its evaluation of the sale and may not be used or relied upon by any other person or for any other purpose.

DBSI's opinion did not address the terms of the stipulation or the merger or any consideration to be received by holders of Preferred Stock (or any other party) pursuant thereto. Nor did DBSI express an opinion, and such opinion does not constitute a recommendation, as to how any person (including any holder of Preferred Stock) should vote with respect to the merger, the amendment to the Amended and Restated Charter or any other matter or whether any holder of Preferred Stock should exercise appraisal rights. The allocation of consideration among the Senior Mezz Hotels being sold and the Trust Hotels was determined by the parties to the sale. DBSI did not play any role in such allocation and DBSI's opinion did not address, and DBSI did not consider, the relative fairness of the consideration payable with respect to the Senior Mezz Hotels being sold as compared with the consideration payable with respect to the Trust Hotels. The Company and Whitehall Street Global Real Estate Limited Partnership 2007 agreed to pay DBSI a fee in connection with the sale, all of which was contingent upon consummation of the sale, and agreed to reimburse DBSI for its expenses, and to indemnify DBSI against certain liabilities, in connection with its engagement. DBSI is an affiliate of Deutsche Bank AG (together with its affiliates, the "DB Group"). One or more members of the DB Group have, from time to time, provided, and are currently

providing, investment banking, commercial banking (including extension of credit) and other financial services unrelated to the sale to The Goldman Sachs Group, Inc., Whitehall Street Global Real Estate Limited Partnership 2007 or their respective affiliates, including the Company, for which they have received, and in the future may receive, compensation, including having provided and/or arranged the Deutsche Bank Loan and the Mezzanine Loan. In addition, one or more members of the DB Group have, from time to time, provided, and are currently providing, investment banking, commercial banking (including extension of credit) and other financial services to American Realty Capital Hospitality Trust, Inc. or its affiliates for which they have received, and in the future may receive, compensation. DBSI has indicated that representatives of the ARC Buyers have raised with members of the DB Group the possibility that the DB Group provide financing to the ARC Buyers in connection with the acquisition of the 20 Trust Hotels. Although no decision has been made with respect to such financing as of the date hereof, the DB Group would anticipate receiving compensation in connection with any such financing, should it be provided. One or more members of the DB Group may hold indebtedness issued by the Company or its affiliates or secured by the Senior Mezz Hotels or the Trust Hotels, some or all of which may be assumed or repaid in connection with the sale. The DB Group may also provide investment and commercial banking services to The Goldman Sachs Group, Inc., Whitehall Street Global Real Estate Limited Partnership 2007 or their respective affiliates, including the Company, or American Realty Capital Hospitality Trust, Inc. or its affiliates in the future, for which we would expect the DB Group to receive compensation. In the ordinary course of business, members of the DB Group may actively trade in the securities and other instruments and obligations of The Goldman Sachs Group, Inc., Whitehall Street Global Real Estate Limited Partnership 2007 or their respective affiliates, including the Company, or American Realty Capital Hospitality Trust, Inc. or its affiliates for their own accounts and for the accounts of their customers. Accordingly, the DB Group may at any time hold a long or short position in such securities, instruments and obligations.

The Sellers have agreed to indemnify the ARC Buyers against any losses incurred by them, to the extent that such losses arise out of breaches of the Sellers' representations and warranties contained in the Sale Agreement, breaches of certain covenants in the Sale Agreement, and for certain actions or inactions of the Sellers or their property managers with respect to certain employment matters. The maximum aggregate liability of the Sellers pursuant to this indemnity is $30 million and will only be paid if such losses exceed $10 million. The ARC Buyers have agreed to indemnify the Sellers for certain losses incurred by them. The Sale Agreement contains customary representations and warranties by the Sellers. The Sellers have separately agreed, without a limit, to indemnify the ARC Buyers against any losses incurred by them in connection with or relating to the Dent Lawsuit (as defined below under the caption "—Certain Information Concerning Litigation"), the Action (as defined below under the caption "—Certain Information Concerning Litigation") and an action pending in the state court of the State of Tennessee.

Pursuant to the terms of the Sale Agreement, the ARC Buyers assumed both the Deutsche Bank Loan and the Mezzanine Loan as described above under the caption "Certain Information Concerning the Company, the Company Parent and the Operating Partnership—Certain Debt Transactions."

Following the consummation of the ARC Transaction, Senior Mezz holds Class A Membership Interests in ARC Hospitality Portfolio I Holdco, LLC, the indirect owner of the 96 Senior Mezz Hotels which were sold, and the Operating Partnership and the Trust hold Class A Membership Interests in ARC Hospitality Portfolio II Holdco, LLC, the indirect owner of the 20 Trust Hotels. We refer to each of ARC Hospitality I Holdco, LLC and ARC Hospitality II Holdco, LLC respectively as a "Holdco," the Class A Membership Interests in Holdco as "Class A Interests" and the holders of the Class A Interests in such capacity as "Class A Members." An affiliate of the ARC Buyers (the "ARC Member") will be the managing member of each Holdco, with control over day-to-day operations subject only to the Class A Members' consent rights over certain significant decisions.

The Class A Interests have an aggregate initial capital balance of approximately $447.1 million (the "Initial Capital Contributions") and will bear interest (the "Preferred Return") at 7.50% per annum for the first 18 months following the closing of the ARC Transaction, and 8.00% per annum thereafter. Following a Changeover Event (as described below), the Class A Interests will bear interest at the then-applicable rate plus 5.00%. The Class A Interests are redeemable at any time by the ARC Member for an amount equal to all of the respective Class A Members' unreturned Initial Capital Contributions, all accrued and unpaid Preferred Return and all other amounts due and payable to the respective Class A Members (the "Redemption Price"). The ARC Member must return at least 50% of the Class A Members' respective Initial Capital Contributions within three years and 100% of the Class

A Members' Initial Capital Contributions within four years, and if it fails to do so, the respective Class A Members may declare a Changeover Event and assume control of the respective Holdco. Proceeds of refinancings and capital events are applied towards paying accrued Preferred Returns and unreturned Initial Capital Contributions before the ARC Member receives distributions. Upon the earlier to occur of the repayment of a note to an affiliate in the amount of approximately $63 million and the ARC Member having raised $100 million in additional capital, 35% of subsequently received proceeds from capital raises must be paid towards the Preferred Returns and unreturned Initial Capital Contributions. Redemption of the Class A Interests is mandatory upon the occurrence of a Changeover Event and on the 90th day following the maturity of the senior debt. Certain affiliates of the ARC Buyers provided a mandatory redemption guaranty to backstop the requirement of the ARC Member to redeem the Class A Interests in accordance with the Operating Agreements of the Holdcos. Prior to a Changeover Event (as defined below), the Class A Interests are generally subject to transfer restrictions without the ARC Member's consent.

The Class A Members have the right to replace the ARC Member as the managing member and assume full control of the respective Holdco (including over any decision to refinance or sell the Holdco or any properties) upon the occurrence, subject to certain cure and grace periods, of any Changeover Event. Changeover Events include the occurrence of any of the following events: failure to make payments when due; failure to contribute protective capital when required; breaches of representations, warranties and covenants; events of default under debt documents, lease agreements and franchise agreements; and insolvency events.

Following a Changeover Event, in addition to the Class A Members' mandatory redemption rights, the Class A Members have the right to exercise a buy/sell option pursuant to which the ARC Member must propose a price to the Class A Members for the respective Holdco for which it would either (i) buy all of the Class A Members' interests in the respective Holdco for the amount that the Class A Members would receive in distributions if such Holdco were sold for such price, or (ii) sell to the Class A Members all of the ARC Member's interest in such Holdco for the amount that the ARC Member would receive in distributions if such Holdco were sold for such price. The Class A Members would then have the right to elect to either sell their interests to the ARC Member or to buy the ARC Member's interest at the applicable price.

Based on 5,850,000 shares of Preferred Stock outstanding as of the record date, we estimate the Estimated Proceeds over Time from the ARC Transaction would be approximately $22.46 per share of Preferred Stock assuming the Initial Capital Contributions of the Class A Interests are repaid in full, but without applying a present value discount and excluding any Preferred Return that may be received in connection with the Class A Interests. The Estimated Present Value of Proceeds from the ARC Transaction (applying a 15% discount rate) would be approximately $19.23 per share of the Preferred Stock. The Estimated Present Value of Proceeds from the ARC Transaction assumes that interest is collected monthly and 50% of the Initial Capital Contribution is collected 36 months after February 27, 2015, the closing date of the ARC Transaction, and the remaining 50% of the Initial Capital Contribution is collected 48 months after the closing date of the ARC Transaction. Both the Estimated Proceeds over Time and the Estimated Present Value of Proceeds from the ARC Transaction exclude (i) any value attributed to the Excluded Hotel Assets, (ii) any cash, other working capital assets and liabilities of the Company which might otherwise result in a distribution to holders of the Preferred Stock in connection with the liquidation of the Company and (iii) any income tax effects which may be applicable to proceeds received by the Company. Post-closing adjustments related to the ARC Transaction are expected to be concluded on or about May 27, 2015. The working capital of the Company and Senior Mezz may be affected by these adjustments, the impact and magnitude of which cannot be estimated prior to completion of the post-closing review.

We have calculated these estimates by reducing the $1.808 billion purchase price contemplated by the Sale Agreement by (1) the $976.0 million of indebtedness which was assumed in the ARC Transaction in connection with the Senior Mezz Hotels being sold, the $153.5 million of indebtedness which was repaid in respect of the Trust Hotels and the repayment of the $51.6 million trust preferred securities, (2) approximately $51.7 million in cash expenses paid at closing (including defeasance costs of approximately $11.3 million with respect to indebtedness in respect of the Trust Hotels which was repaid at closing of the ARC Transaction and $11.9 million in respect of a reduction in the purchase price for certain capital improvements) and (3) $24.9 million of accrued or contingent costs in respect of the ARC Transaction (including $17.0 million in respect of certain real estate tax reserves for a make-whole payment contemplated by the Sale Agreement, $9.4 million of disposition fees due to Goldman Sachs Realty Management, L.P. ("GSRM"), an affiliate of the Company, under its asset management agreements with the Company and Senior Mezz, and receipt of $1.5 million by the Company in respect of its ownership interest in the

trust preferred securities). These estimates indicate an equity value of $118.5 million with respect to the Trust Hotels and $431.9 million with respect to the 96 Senior Mezz Hotels. The equity value is calculated as Net Cash Received from ARC Transaction, net of Accrued or Contingent Costs Related to ARC Transaction plus the Class A Interests Issued in ARC Transaction

In respect of the 96 Senior Mezz Hotels which were sold pursuant to the Sale Agreement, Sellers received approximately $106.0 million in cash proceeds at closing (after the assumption of indebtedness and payment of fees and costs, but before consideration of $21.4 million of accrued or contingent costs in respect of the ARC Transaction) and Class A Interests with an Initial Capital Contribution of $347.3 million. With respect to the Trust Hotels, Sellers received $22.2 million in cash proceeds at closing (after the repayment of indebtedness and payment of fees and costs, but before consideration of an additional net $3.5 million of accrued or contingent costs in respect of the ARC Transaction) and Class A Interests with an Initial Capital Contribution of $99.8 million. As of the date of this proxy statement, approximately $13.0 million in principal and $5.9 million in interest has been paid in respect of the Class A Interests.

In addition, the Company and the Company's Parent hold a 3% interest in the potential proceeds from the sale of the Excluded Hotel Assets. Assuming the proceeds received from a sale of the Excluded Hotel Assets equal the $100 million that was provided for in the Excluded Hotel Asset Sale Agreement (which has since been terminated) less $2.0 million of estimated transaction expenses (exclusive of any present value discount), the Company and the Company's Parent's 3% interest equals $2.9 million (the "Estimated Potential Proceeds from the Sale of Excluded Hotel Assets"). The Excluded Hotel Sale Agreement was terminated by the purchasers on May 6, 2015 (the ARC Buyers had previously elected to exclude the same hotels from the ARC Transaction). While the Sellers expect to sell the Excluded Hotel Assets, there can be no assurance as to whether or when the Excluded Hotel Assets will be sold, the form of consideration which may be received in respect of the Excluded Hotel Assets or whether the consideration which may be received in respect of the Excluded Hotel Assets will be greater or less than the purchase price in the Excluded Hotel Sale Agreement. Even if a transaction for the Excluded Hotel Assets does occur, there can be no assurance as to when a distribution from such sale proceeds will be received by the Company.

Following the exercise of the Purchase Option, the Company and Company Parent only have an indirect 3% interest in the equity of the Senior Mezz Hotels totaling $15.8 million ($2.5 million in cash at closing, $10.4 in Class A Interests in respect of the Senior Mezz Hotels sold in the ARC Transaction and $2.9 million in respect of the Potential Proceeds from the Sale of the Excluded Hotel Assets).

The Total Combined Proceeds from the ARC Transaction and Potential Proceeds from the Sale of the Excluded Hotel Assets of $134.3 million results from combining the Company's Estimated Proceeds over Time from the ARC Transaction of $131.4 million with the Company and Company Parent's 3% interest in the Excluded Hotel Assets of $2.9 million.

Based on 5,850,000 shares of Preferred Stock outstanding as of the record date, Estimated Potential Proceeds from the Sale of Excluded Hotel Assets would be approximate $0.50 per share of Preferred Stock. The sum of the Estimated Proceeds over Time from the ARC Transaction and the Estimated Potential Proceeds from the Sale of the Excluded Hotel Assets would be approximately $22.96 per share of Preferred Stock. The sum of the Estimated Present Value of Proceeds from the ARC Transaction and the Estimated Present Value of the Potential Proceeds from the Sale of the Excluded Hotel Assets would be approximately $19.73 per share of Preferred Stock.

The following is a tabular presentation of the foregoing analysis:

(Amounts in millions except per share amounts)	Trust Hotels	Senior Mezz Hotels	Total
Summary of ARC Transaction Proceeds[1]			
Purchase Price of Sold Hotels[2]	**$ 346.8**	**$ 1,461.3**	**$ 1,808.1**
Net Cash Received at Closing from ARC Transaction[1]	22.2	106.0	128.2
Net Cash Received from ARC Transaction, net of Accrued or Contingent Costs Related to ARC Transaction[1]	18.7	84.6	103.3
Class A Interests Issued in ARC Transaction[3]	99.8	347.3	447.1
Company's 3.0% interest in Senior Mezz Net Cash Received from ARC Transaction, net of Accrued or Contingent Costs Related to ARC Transaction[4]	2.5	(2.5)	-
Company's 3.0% Interest in Senior Mezz Class A Interests[5]	10.4	(10.4)	-
Estimated Proceeds over Time from ARC Transaction, excluding Potential Proceeds from the Sale of the Excluded Hotel Assets[6]	**$ 131.4**		
Estimated Proceeds over Time from ARC Transaction, excluding Potential Proceeds from the Sale of the Excluded Hotel Assets per share of Preferred Stock[6]	**$ 22.46**		
Estimated Potential Proceeds from the Sale of the Excluded Hotel Assets[7]	**$ -**	**$ 98.0**	**$ 98.0**
Company's 3.0% interest in the Estimated Potential Proceeds from the Sale of the Excluded Hotel Assets [7]	2.9	(2.9)	-
Total Combined Proceeds from ARC Transaction and Potential Proceeds from the Sale of the Excluded Hotel Assets[8]	$ 134.3		
Total Combined Proceeds from ARC Transaction and Potential Proceeds from the Sale of the Excluded Hotel Assets per share of Preferred Stock[8]	**$ 22.96**		
Detailed ARC Transaction Costs			
Purchase Price[2]	**$ 346.8**	**$ 1,461.3**	**$ 1,808.1**
Cash Costs Paid at Closing			
Goldman, Sachs & Co, Advisory Fee	(2.3)	(9.7)	(12.0)
Deutsche Bank Securities, Inc. Advisory Fee and expenses	(1.6)	(6.5)	(8.1)

	Trust Hotels	Senior Mezz Hotels	Total
Other[9]	(13.2)	(6.7)	(19.9)
Operational prorations	(0.4)	0.6	0.2
Capital Reduction[10]	(2.2)	(9.7)	(11.9)
Total Cash Costs Paid at Closing	(19.7)	(32.0)	(51.7)
Net Proceeds after Cash Costs Paid at Closing	327.1	1,429.3	1,756.4
Debt:			
Senior and Mezzanine Debt[11]	(153.5)	(976.0)	(1,129.5)
Trust Preferred Redeemed at Closing[12]	(51.6)	-	(51.6)
Total Debt Assumed or Redeemed	(205.1)	(976.0)	(1,181.1)
Net Proceeds After Debt Assumption/Redemption	122.0	453.3	575.3
Class A Interests Issued in the ARC Transaction[3]	(99.8)	(347.3)	(447.1)
Net Cash Received at Closing from ARC Transaction	**22.2**	**106.0**	**128.2**
Accrued or Contingent Costs Related to the ARC Transaction			
Disposition Fee Payable to Asset Manager GSRM (Sold Hotels)[13]	(1.7)	(7.3)	(9.0)
Accrued Disposition Fee Payable to Asset Manager GSRM (previously sold assets)[14]	(0.4)	-	(0.4)
Real Estate Tax Reserve[15]	(2.9)	(14.1)	(17.0)
Proceeds from Ownership Interest in Trust Preferred[12]	1.5	-	1.5
Total Accrued or Contingent Costs Related to the ARC Transaction	**3.5**	**21.4**	**24.9**
Net Cash Received from ARC Transaction, net of Accrued or Contingent Costs Related to the ARC Transaction	**18.7**	**84.6**	**103.3**

[1] See also Detailed Transaction Costs below.

[2] Purchase price allocation among the Hotels provided by the ARC Buyers in the Sale Agreement with respect to the Sold Hotels.

[3] The Initial Capital Contribution of the Class A interests issued to the Sellers in the ARC Transaction; mandatory payment equal to 50% of the Initial Capital Contribution is required within three years and 100% within four years.

[4] Calculated as 3.0% of the Senior Mezz Hotels Net Cash Received from ARC Transaction, net of Accrued or Contingent Costs Related to the ARC Transaction.

[5] Calculated as 3% of the Senior Mezz Initial Capital Contribution of Class A Interests Issued in ARC Transaction; mandatory payment equal to 50% of the Initial Capital Contribution is required within three years and 100% within four years.

[6] Excludes (i) any sale proceeds of the Excluded Hotel Assets, (ii) any Preferred Return that may be received in connection with the Class A Interests, (iii) any cash or other working capital assets and liabilities of the Company and any cash or working capital assets and liabilities of Senior Mezz which might otherwise result in a distribution to holders of the Preferred Stock in connection with the liquidation of the Company and (iv) any income tax effects which may be applicable to proceeds received by the Company.

[7] Estimated sale proceeds of the Excluded Hotel Assets calculated as $100.0 million gross sales price based on the purchase price of the Excluded Hotel Assets under the Excluded Hotel Sale Agreement (to which the Company received a termination notice dated May 6, 2015), less $2.0 million of estimated transaction expenses. There can be no assurance when, if at all, the Excluded Hotel Assets may be sold or the amount or form of consideration which may be received upon sale.

[8] Excludes (i) any Preferred Return that may be received in connection with the Class A Interests, (ii) any cash or other working capital assets and liabilities of the Company and any cash or working capital assets and liabilities of Senior Mezz which might otherwise result in a distribution to holders of the Preferred Stock in connection with the liquidation of the Company and (iii) any income tax effects which may be applicable to proceeds received by the Company.

[9] For the Trust Hotels, this amount includes (i) $11.3 million in defeasance and related costs in respect of debt repaid at closing, (ii) transfer taxes of $0.8 million, (iii) legal and accounting costs of $0.9 million and (iv) sales tax on FF&E sale of $0.2 million. For the Senior Mezz Hotels, this amount includes (i) transfer taxes of $2.9 million, (ii) legal and accounting costs of $3.8 million, (iii) sales tax on FF&E sale of $40 thousand and (iv) other costs in the amount of $45 thousand.

[10] Reduction in the Purchase Price for "Change of Control PIP" and other capital expenditures of $11.9 million as provided for and defined in the Sale Agreement.

[11] Debt balances as of February 27, 2015.

[12] Company owned $1.5 million of common securities in the trust which owned the Trust Preferred Debt; this amount was returned to Company following redemption of the Trust Preferred Debt.

[13] Disposition fee due to Goldman Sachs Realty Management, L.P. ("GSRM"), an affiliate of the Company, under its asset management agreements with the Company and Senior Mezz which are 0.50% of the gross purchase price (including consideration paid as Class A Interests). Included as an increase to Other Liabilities Payable to Affiliate in the Company's Pro Forma Condensed Consolidated Balance Sheet as of December 31, 2014.

[14] Accrued disposition fees payable to GSRM for the sale of six assets previously sold and are allocated based on sold asset's owner ($360,695 with respect to the Trust Hotels and $23,449 with respect to the Senior Mezz Hotels). Included in Other Liabilities Payable to Affiliate on the Company's consolidated balance sheet as of December 31, 2014.

[15] Reserve for the real estate tax make -whole as provided for in the Sale Agreement. These reserves may become payable under certain conditions provide for in the Sale Agreement at any time up to month 36 following close of the ARC Transaction and are in addition to the Other Liabilities reflected on the Company's consolidated balance sheet as of December 31, 2014 and the Pro Forma Condensed Consolidated Balance Sheet as of December 31, 2014.

Without the cancellation of $544.8 million of indebtedness in exchange for the Purchase Option and indebtedness paid with equity contributions of $195.2 from affiliates in 2009, the Company's indebtedness, including accrued interest (but excluding default interest), would have been approximately $2.168 billion as of December 31, 2014. The proceeds of $1.732 billion as a result of the ARC Transaction (without applying the present value discount to the Class A Interests) together with the $98.0 million in net proceeds estimated to be received in respect of a sale of the Excluded Hotel Assets pursuant to the assumptions described above would have been less than the amount of such indebtedness and thus there would have been no proceeds available for distributions to holders of the Preferred Stock.

We are also faced with the possibility of having to register as an "investment company" under the Investment Company Act. We expect to take actions to ensure that does not occur, which may include the merger, or the disposition of our investment securities, including through liquidation, or the acquisition of sufficient assets that are not investment securities in order for us not to be deemed an investment company under the Investment Company Act.

Certain Information Concerning Litigation

The Company is involved in various legal proceedings and disputes arising in the ordinary course of business. Management of the Company does not believe that any of the pending actions will have a material adverse effect on the Company's business, financial condition or results of operations other than the actions described below.

In September 2007, a putative class action lawsuit was filed in the Circuit Court of Shelby County, Tennessee on behalf of the former Series B and Series C preferred shareholders of Equity Inns alleging breaches of fiduciary duty against Equity Inns' former directors (the "Tennessee Lawsuit"). This complaint does not name the Company or any corporate entity as a defendant. In February 2008, the court denied the defendants' motion to dismiss the complaint. In April 2010, the court granted a motion for class certification, which was ultimately appealed and vacated by the Tennessee Court of Appeals and remanded back to the Circuit Court. During the second quarter of 2012, the plaintiffs filed a second amended complaint and a new motion to certify a class. In November 2012, the defendants filed an opposition to such motion within the Circuit Court. In April 2013, the Circuit Court granted the new motion and certified a class and three subclasses. In May 2014, the Tennessee Court of Appeals vacated class certification. In January 2015, the action was voluntarily dismissed.

In September 2013, the Action was filed in the Tennessee Chancery Court, Shelby County, Tennessee by several current and former shareholders of the Preferred Stock. Plaintiffs allege that, since October 2007, defendants have engaged in a scheme to oppress and then squeeze-out the preferred shareholders, including by allegedly suppressing the marketability of the shares, causing the Company to cease paying dividends, and purchasing approximately 59% of the shares in a series of alleged "creeping" tender offers beginning in 2012. The complaint names as defendants the Company, the members of our board of directors, the majority shareholders of the Company (Company Parent, Whitehall and PFD Holdings), and the GS Group and Goldman Sachs Realty Management L.P., allegedly as control persons. The complaint asserts claims for breach of contract, breach of fiduciary duty, aiding and abetting, and for violations of the Tennessee Blue Sky laws and the TBCA. On October 4, 2013, defendants removed the action to the United States District Court for the Western District of Tennessee. On November 6, 2013, plaintiffs filed a motion to remand the case to state court. The defendants filed their opposition on December 6, 2013. The remand motion was fully briefed on December 20, 2013. On July 28, 2014, the Court denied the remand motion. The defendants also moved to dismiss the Action on January 23, 2014. The Court entered a scheduling order governing further proceedings in the litigation on February 14, 2014, as amended on June 19, 2014 and July 28, 2014, and the parties engaged in merits and class certification discovery. Also, pursuant to the schedule, plaintiffs filed their opposition to defendants' dismissal motion on March 21, 2014, and defendants filed their reply papers in further support of their motion on April 25, 2014. Plaintiffs moved for class certification on May 16, 2014.

After the Company announced the ARC Transaction on June 2, 2014, defendants and plaintiffs engaged in settlement negotiations. Thereafter, plaintiffs made requests for, and defendants provided to plaintiffs, information regarding the ARC Transaction. Among other information provided, the Company estimated a reasonable fair present value of the proceeds that could be distributed to holders of the Preferred Stock as a result of the ARC Transaction, as announced, to be approximately $18.50 per share of Preferred Stock. Plaintiffs retained and consulted with two financial advisors with regard to the ARC Transaction. During this period, the parties to the Action continued to engage in both merits and class certification discovery. On August 20, 2014, the parties entered into a Memorandum of Understanding ("MOU") containing the key terms of a proposed settlement. On August 22, 2014, the parties held a telephone conference with the Court, in which the Court agreed that, in light of the MOU, the parties would no longer be subject to the pending deadlines in the current scheduling order. For the Court's convenience in managing its docket, the defendants agreed to withdraw their pending motion to dismiss without prejudice. On September 2, 2014, the Court granted the defendants' motion to withdraw its motion to dismiss without prejudice to renew. The defendants may renew their motion to dismiss in the event that the proposed settlement of the Action does not become final. The Stipulation, discussed in this proxy statement under the caption "—Stipulation" was negotiated in connection with the Action and contemplates a release of claims by the identified classes of current and former holders of the Preferred Stock. The language of the release is included in the form of letter of transmittal attached to the merger agreement included as Annex B to this proxy statement.

In October 2013, a similar lawsuit was filed by another plaintiff in the same court as the Action, alleging similar breaches against several of the same defendants named in the Action, in addition to a former member of the Company's board of directors (the "Dent Lawsuit").

As of the Effective Date of the Settlement, members of the classes (as defined below) will have fully, finally and forever waived, released, discharged and dismissed all of their claims against the released defendant parties in the Action (i) related to the purchase, sale, holding or investment in, or the terms of, the securities of

W2007 Grace or its predecessors (including Equity Inns), including, without limitation, the Preferred Stock; (ii) asserted, or that could have been asserted, in the Action or arising out of or relating to the facts, matters and transactions alleged in the Action, including, without limitation, claims for breach of contract, claims for breach of fiduciary duties, and claims for violations of the TBCA; and/or (iii) arising out of the merger that is a component of the Settlement, including, without limitation, claims related to the sufficiency of the merger process and the proxy statement, and claims for breach of the fiduciary duties, whether those claims have been asserted in the Action or any other action, or are unasserted.

Stipulation

The following sets forth a summary of certain material terms of the Stipulation, which is attached to this proxy statement as Annex C.

Members of the Holder Class and Seller Class. The Stipulation settles claims with respect to two classes: the Holder Class and the Seller Class (collectively referred to in this proxy statement as the "classes"). Holder Class means any and all persons who, as of August 22, 2014 and through the effective time of the merger, hold our Series B Preferred Stock and/or our Series C Preferred Stock, excluding defendants in the Action and their affiliates, persons who opt out of the Holder Class and holders of dissenting shares. Seller Class refers to all persons who sold some or all of their shares of Preferred Stock between October 25, 2007 and October 8, 2014, inclusive, and suffered a loss, excluding the defendants in the Action, their affiliates and persons who sold shares to PFD Holdings, and persons who opt out of the Seller Class.

Approval Process and Timing Matters.

- The Stipulation was signed on October 8, 2014 and submitted to the Court on October 9, 2014 and was granted preliminary approval on April 30, 2015.

- On April 30, 2015, the Court entered a preliminary approval order, which set a final approval hearing on September 11, 2015 at the United States District Court for the Western District of Tennessee for purposes of determining, among other issues, whether the proposed Settlement on the terms and conditions provided for in the Stipulation is fair, reasonable and adequate, and should be approved by the Court. The preliminary approval order, among other things, (i) conditionally certified the two classes for purposes of settlement only; (ii) conditionally found that named plaintiffs in the Action are adequate class representatives for the classes and that Chimicles & Tikellis LLP was adequate class counsel to represent the classes; (iii) approved the form, substance and requirements of the Notice of Pendency of Class Action and Proposed Settlement ("Notice") that class counsel proposed providing to members of the classes; (iv) set forth the procedures whereby persons can request exclusion from the Holder Class or the Seller Class and members of the classes can make objections to the Settlement; and (v) scheduled a final approval hearing.

- Pursuant to the preliminary approval order, class counsel is required to mail the Notice and proof of claim form to all members of the classes at the last-known address of each such person within 15 business days after the preliminary approval order (which is on or around the initial date of mailing of this proxy statement) and cause the "Summary Notice" to be published in *Investor's Business Daily*, *PRNewswire* and the *Wall Street Journal* Online edition within 20 business days after the entry of the preliminary approval order.

Settlement Consideration. In consideration of settling the claims of the Holder Class, the defendants in the Action agreed to cause the board of directors to adopt the merger agreement and to submit to the holders of our Series B Preferred Stock and our Series C Preferred Stock a proposal to approve and adopt, the merger agreement attached as Annex B to this proxy statement (as described in this proxy statement under the caption "Approval of the Merger Agreement (Proposal 2)"), pursuant to which each member of the Holder Class would be entitled to receive $26.00 per share in the merger. In addition, the Stipulation also provides for a Seller Class settlement fund of $6 million, which is distributable to members of the Seller Class, after taxes and notice and administration expenses

(the "Net Seller Class Settlement Fund"), pursuant to a Plan of Allocation preliminarily approved by the Court. Members of the Seller Class must submit proof of claim forms by the date set by the Court in the preliminary approval order and specified in the Notice. The Claims Administrator will determine each authorized claimant's share of the Net Seller Class Settlement Fund based upon each claimant's recognized loss, as defined in the Plan of Allocation. Any balance in the Net Seller Class Settlement Fund after distribution to authorized claimants will be distributed by the Claims Administrator pro rata to the members of the Holder Class, as set forth in the Plan of Allocation and the Stipulation. The Seller Class Settlement Fund is maintained in an escrow account controlled by class counsel and subject to the Court's oversight for the benefit of the Seller Class.

Exclusion From the Classes. A person requesting exclusion from the Holder Class or the Seller Class must provide a written request for exclusion containing the information set forth in the Notice. Unless otherwise ordered by the Court, any member of either the Holder Class or Seller Class who or which does not submit a timely written request for exclusion as provided in the Stipulation, upon entry of the final approval order, is bound by the Stipulation, whether or not such person objected to the Settlement and whether or not such person received Settlement consideration. Persons who timely and validly request exclusion from the classes in accordance with the procedures set forth in the Stipulation and the preliminary approval order, retain their claims that would have otherwise been released by the Stipulation.

Termination. The Stipulation may be terminated under the conditions specified in the Stipulation. Pursuant to the Stipulation, the defendants in the Action may elect, in their sole discretion, to terminate the Settlement if the merger or the proposed amendment to our Amended and Restated Charter is not approved by applicable requisite vote. A Supplemental Agreement sets forth certain conditions under which defendants in the Action will have the option (which option shall be exercised unilaterally by the defendants in the Action in their discretion) to terminate the Settlement and render the Stipulation null and void in the event that (i) requests for exclusion from the Holder Class exceed an agreed upon threshold, (ii) requests for exclusion from the Seller Class exceed an agreed upon threshold, or (iii) the holders of 7.5% or more of outstanding shares of the Preferred Stock (other than shares held by the defendants in the Action and their affiliates) give notice of their intention to assert dissenters' rights before the vote to approve the merger agreement; provided however, that named plaintiffs will have a reasonable period to reduce such opt-outs and dissenters below such thresholds.

Effect of Termination. In the event the Settlement is terminated or the effective date of the Settlement otherwise does not occur for any reason, then: (i) the Settlement will be without prejudice, and none of its terms, including, but not limited to, the certification of the classes, will be effective or enforceable except as expressly provided in the Stipulation or, in the case of the certification of the classes, ordered by the Court; (ii) the parties to the Stipulation will be deemed to have reverted nunc pro tunc to their respective positions in the Action immediately prior to entering into the non-binding Memorandum of Understanding on August 20, 2014; and (iii) except as otherwise expressly provided in the Stipulation, the Parties will proceed in the Action in all respects as if the Stipulation and any related orders had not been entered. If the Settlement is terminated or the effective date of the Settlement otherwise does not occur for any reason, any portion of the Settlement Amount previously paid by or on behalf of defendants, together with any interest earned thereon, less any taxes paid or due, less notice and administration expenses actually incurred and paid or payable from the Settlement Amount will be returned to the Company within ten business days after written notification of such event by either class counsel or defendants' counsel. In the event that the Settlement is terminated or fails to become effective for any reason, the parties to the Settlement must, within 14 calendar days of such cancellation, jointly request a status conference with the Court to be held on the Court's first available date. At such status conference, the parties to the Settlement must ask for the Court's assistance in scheduling continued proceedings in the Action between the parties.

The Stipulation, whether or not consummated, and any negotiations, proceedings or agreements relating to the Stipulation, the Settlement, and any matters arising in connection with settlement negotiations, proceedings or agreements, shall not be offered or received against any or all parties to the Stipulation, or any member of the classes, for any purpose. The Stipulation and the Settlement do not constitute, and may not be offered or received against parties to the Stipulation, or any member of the classes, or any of them, as evidence of, or construed as evidence of, a presumption, concession or admission by any of them with respect to: (i) the truth of any allegation by named plaintiffs or any other member of the classes; (ii) the validity of any claim that has been or could have been asserted in the Action or in any litigation, including, but not limited to, the released claims; (iii) any liability,

negligence, fault or wrongdoing on the part of, or damages owed by, any or all of defendants; or (iv) damages recoverable.

No Recommendation by Our Board of Directors

On May 10, 2015, our board of directors approved and adopted, and determined to submit to the holders of our Series B Preferred Stock and our Series C Preferred Stock a proposal to approve and adopt, the merger agreement. Neither the Company nor our board of directors makes any recommendations as to whether holders of the Preferred Stock should vote in favor of the proposals to be considered at the special meeting for the following reasons, among others:

- Company Parent owns 100% of the issued and outstanding common stock of the Company and thus controls the vote to elect the board of directors of the Company;
- PFD Holdings, an affiliate of the Company and defendant in the Action, owns a majority of the Series B Preferred Stock and the Series C Preferred Stock;
- The GS Group, an affiliate of the Company and defendant in the Action, owns all of the Series D Preferred stock; and
- Approval of the amendment to our Amended and Restated Charter and the merger agreement are conditions to the Stipulation pursuant to which the defendants, including the Company, its directors, Company Parent, PFD Holdings and the GS Group will be released.

You must make your own decision as to how to vote your shares at the special meeting and are urged to carefully review all information contained or referred to in the enclosed proxy statement. You should consult your own attorney, financial advisor and tax advisor, respectively, as to legal, financial or tax advice with respect to the proposals to be considered at the special meeting.

Other Parties to the Merger Agreement

In addition to the Company, a description of which is contained in this proxy statement under the caption "Certain Information Concerning the Company, Company Parent and the Operating Partnership," Parent and W2007 Grace Acquisition II, Inc., a Tennessee corporation and wholly-owned subsidiary of Parent, are each a party to the merger agreement. Parent and Merger Sub are newly formed entities, created in connection with the merger. PFD Holdings and Whitehall are also parties to the merger agreement solely for the purposes of certain payment obligations thereunder.

Pursuant to the merger we will be merged with and into Merger Sub, with Merger Sub surviving the merger as a wholly-owned subsidiary of Parent. Parent is owned by Whitehall which are affiliates of the GS Group. Accordingly, following the merger we will be entirely owned by affiliates of the GS Group.

Certain U.S. Federal Income Tax Consequences

The following is a summary of certain material U.S. federal income tax consequences of the merger to holders whose shares are surrendered for the merger consideration pursuant to the merger. This summary does not address any payments that may be made pursuant to the Stipulation other than the merger consideration, and any such other payments should not be treated as part of the consideration for the shares surrendered pursuant to the merger. This summary is based upon the Code, treasury regulations promulgated thereunder, administrative pronouncements and judicial decisions, all as of the date of this proxy statement and all of which are subject to change, possibly with retroactive effect. This summary is not a comprehensive description of all U.S. federal income tax considerations that may be relevant to the merger. The discussion applies only to holders that hold their shares as capital assets within the meaning of Section 1221 of the Code, and may not apply to holders who are in special tax situations (such as dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, banks, insurance companies, tax-exempt organizations, regulated investment companies, certain expatriates

or persons subject to the alternative minimum tax), or to holders holding shares as part of a wash sale, "straddle," "hedge," "conversion transaction," constructive sale or other integrated transaction, or whose functional currency is not the U.S. dollar. This discussion does not address any aspect of U.S. federal gift or estate tax, state, local or foreign tax consequences of participating in the merger. For purposes of this discussion, a "U.S. Holder" means:

- a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in the United States or under the laws of the United States or of any political subdivision thereof;
- an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (1) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all of its substantial decisions or (2) that has validly elected to be treated as a U.S. person for U.S. federal income tax purposes under applicable Treasury Regulations.

If a partnership holds shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding shares should consult their tax advisors.

THE MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES SET FORTH BELOW ARE BASED UPON CURRENT LAW. BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, EACH HOLDER SHOULD CONSULT SUCH HOLDER'S OWN TAX ADVISOR TO DETERMINE THE APPLICABILITY OF THE RULES DISCUSSED BELOW TO SUCH HOLDER AND THE PARTICULAR TAX EFFECTS OF THE MERGER TO SUCH HOLDER, INCLUDING THE APPLICATION AND EFFECT OF U.S. FEDERAL ESTATE AND GIFT, STATE, LOCAL AND OTHER TAX LAWS.

Consequences to U.S. Holders of Receiving the Merger Consideration in the Merger. The receipt of cash for shares pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. In general, for U.S. federal income tax purposes, a U.S. Holder will recognize gain or loss equal to the difference between the amount of the cash proceeds received in exchange for the U.S. Holder's shares and the U.S. Holder's adjusted federal income tax basis in shares sold pursuant to the merger. Gain or loss must be determined separately for each block of shares (i.e., shares acquired at the same cost in a single transaction) sold pursuant to the merger. Such gain or loss will be capital gain or loss and will be long-term gain or loss if, on the date of sale, the shares were held for more than one year. Long-term capital gains recognized by an individual will generally be subject to a maximum U.S. federal income tax rate of 20%. Net capital losses may be subject to limits on deductibility.

Payments made in connection with the merger may be subject to "backup withholding" at a rate of 28%. Backup withholding generally applies if the holder (a) fails to furnish its social security number or other taxpayer identification number ("TIN"), (b) furnishes an incorrect TIN or (c) fails to provide a certified statement, signed under penalties of perjury, that the TIN provided is its correct number and that the holder is not subject to backup withholding. Backup withholding is not an additional tax and may be refunded by the IRS to the extent that it results in an overpayment of tax. Certain persons generally are entitled to exemption from backup withholding, including corporations. Each holder should consult with his or her own tax advisor as to his or her qualification for exemption from backup withholding and the procedure for obtaining such exemption. Surrendering holders may be able to prevent backup withholding by completing the IRS Form W-9 included with the letter of transmittal.

To prevent a U.S. federal income withholding tax of 10% in respect of gross proceeds of the merger (as described with respect to surrendering non-U.S. Holders below), U.S. Holders must provide the exchange agent with a completed Certification on Non-Foreign Status included in the letter of transmittal.

Medicare Tax. A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, may be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" for the relevant taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between $125,000 and $250,000, depending on

the individual's circumstances). A holder's net investment income will generally include its net gains recognized upon the receipt of cash for shares pursuant to the merger, unless such gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to gains in respect of the receipt of cash for shares pursuant to the merger.

Non-U.S. Holders. The following general discussion applies to Holders that are "non-U.S. Holders." A "non-U.S. Holder" is a person or entity that, for U.S. federal income tax purposes, is a:

- non-resident alien individual, other than certain former citizens and residents of the United States subject to tax as expatriates;
- foreign corporation; or
- foreign estate or trust.

Consequences to Non-U.S. Holders of Receiving the Merger Consideration in the Merger. Non-U.S. Holders participating in the merger could be subject to U.S. federal tax upon the sale of the shares pursuant to the merger under the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA") to the extent the Company is a "United States real property holding corporation" ("USRPHC") (defined generally as any U.S. corporation if 50% or more of its assets consist of interests in real property located in the United States). Unless an exception to FIRPTA is applicable, upon the sale of shares of a USRPHC (i) U.S. federal income tax is due in respect of net gains, (ii) U.S. federal withholding tax of 10% is due in respect of gross proceeds and (iii) certain filing requirements are imposed, in each case, in respect of such sale. Any amounts withheld in respect of gross proceeds that are in excess of the actual income tax due under FIRPTA are refundable by filing for a refund with the IRS. Any gains recognized on the sale or disposition of the shares of a USRPHC are treated as effectively connected with a U.S. trade or business and are subject to U.S. federal income tax at rates applicable to a U.S. Holder, and if the seller is a foreign corporation, may result in the imposition of branch profits tax as well as regular corporate income tax.

The Company believes that it is a USRPHC and that the exceptions to FIRPTA may not apply to the merger, and thus intends to withhold FIRPTA taxes equal to 10% of the purchase price that is payable to the non-U.S. Holder in the merger and remit such amount to the IRS.

Each holder (including a holder that is a foreign partnership) should consult such holder's own tax advisor to determine the applicability and consequences of FIRPTA to such Holder's sale of shares pursuant to the merger.

Surrendering non-U.S. Holders could be subject to 28% backup withholding, as described with respect to surrendering U.S. Holders above. In order to avoid the possibility of backup withholding, each non-U.S. Holder must provide the exchange agent with a completed IRS Form W-8BEN, IRS Form W-8BEN-E, or another type of IRS Form W-8 appropriate to the particular non-U.S. Holder. Copies of IRS Form W-8BEN, IRS Form W-8BEN-E, and other types of IRS Form W-8 can be found on the IRS website at www.irs.gov/formspubs/index.html.

APPROVAL OF THE AMENDMENT TO OUR AMENDED AND RESTATED CHARTER (PROPOSAL 1)

On May 10, 2015, our board of directors approved and adopted, and determined to submit to the holders of our Series B Preferred Stock and Series C Preferred Stock a proposal to approve and adopt, the amendment to our Amended and Restated Charter attached as Annex A to this proxy statement. The approval of the amendment to our Amended and Restated Charter would be a condition to the consummation of the merger that may be waived by the parties to the merger.

If approved at the special meeting, we expect to file the articles of amendment to the Amended and Restated Charter with the Secretary of State of the state of Tennessee promptly after the Stipulation has been finally approved by the District Court for the Western District of Tennessee, and a final order and judgment that is no longer appealable with respect to the Stipulation has been entered. As described in more detail below in this proxy statement under the caption "Approval of the Merger Agreement (Proposal 2)—Conditions to the Merger", approval of the amendment to our Amended and Restated Charter is a waivable condition precedent to the consummation of the merger under the merger agreement. While the amendment to the Amended and Restated Charter is a waivable condition to the consummation of the merger, the amendment to the Amended and Restated Charter will not alter the vote required to approve the merger agreement as described in this proxy statement under the caption "The Special Meeting—Vote Required." The following discussion of the proposed amendment to our Amended and Restated Charter is qualified in its entirety by reference to the full text of the amendment to our Amended and Restated Charter, a copy of which is attached to this proxy statement as Annex A and which is incorporated by reference into this proxy statement. This summary does not purport to be complete and may not contain all of the information about the amendment to the Amended and Restated Charter that may be important to you.

The proposed amendment to our Amended and Restated Charter will reduce the vote required of holders of our Series B Preferred Stock and Series C Preferred Stock to (i) authorize the creation of, the increase in the authorized amount of, or issuance of any shares of any class of stock entitled to receipt of dividends or amounts distributable upon liquidation, dissolution or winding up in preference or priority to the holders of the Series B Preferred Stock and Series C Preferred Stock, respectively, or any other security convertible into shares of any class of such senior stock, or (ii) amend, alter or repeal any provision of, or add any provision to, our Amended and Restated Charter or Bylaws, where such action would materially adversely affect the voting powers, rights or preferences of the holders of our Series B Preferred Stock or Series C Preferred Stock, respectively. Under the current Amended and Restated Charter, such an action requires the affirmative vote or consent of at least 66 2/3% of the votes entitled to be cast by the holders of the Series B Preferred Stock or Series C Preferred Stock, respectively for such an action, voting together with the holders of all other classes of preferred stock entitled to vote on such matters as a single class. The proposed amendment to the Amended and Restated Charter would lower these thresholds to a simple majority.

Because PFD Holdings owns approximately 59% of the issued and outstanding Preferred Stock, the amendment will grant PFD Holdings the ability take actions which may be adverse to the interests of holders of the Preferred Stock. However, PFD Holdings will only use the flexibility granted by the amendment to take actions necessary or advisable to facilitate the merger and the Settlement. In the event that the Stipulation is terminated and the merger is not consummated, the Company, along with its affiliates, will take all actions necessary to further amend the Amended and Restated Charter to restore the rights currently granted to holders of the Series B Preferred Stock and the Series C Preferred Stock.

Dissenters' rights are available to holders of our Series B Preferred Stock and Series C Preferred Stock under the TBCA in connection with the proposal to amend our Amended and Restated Charter in the event of its implementation. Please see the disclosure in this proxy statement under the caption "Dissenters' Rights" for a discussion of the availability of dissenters' rights and the procedures required to be followed to assert these rights in connection with the proposal to amend our Amended and Restated Charter.

APPROVAL OF THE MERGER AGREEMENT
(PROPOSAL 2)

Our board of directors approved and adopted, and determined to submit to the holders of our Series B Preferred Stock and our Series C Preferred Stock a proposal to approve and adopt, the merger agreement attached as Annex B to this proxy statement.

The summary of the material terms of the merger agreement below and elsewhere in this proxy statement is qualified in its entirety by reference to the merger agreement, a copy of which is attached to this proxy statement as Annex B and which is incorporated by reference into this proxy statement. This summary does not purport to be complete and may not contain all of the information about the merger agreement that may be important to you.

The merger agreement has been included to provide you with information regarding its terms, and we recommend that you read carefully the merger agreement in its entirety.

Overview

At the effective time we will be merged with and into Merger Sub, with Merger Sub surviving the merger as a wholly-owned subsidiary of Parent, which we refer to in the proxy statement as the merger.

The merger will become effective at the time when the Tennessee articles of merger has been duly filed with the Secretary of State of Tennessee or at such later time as may be specified therein, which we sometimes refer to as the effective time. The charter of Merger Sub, as in effect immediately prior to the merger effective time, will be the charter of the surviving corporation until thereafter amended in accordance with the provisions thereof and as provided by applicable law. A copy of Merger Sub's charter is attached to this proxy statement as Annex G.

We expect the merger to occur as promptly as practicable after our shareholders approve the merger agreement and the satisfaction or, other than with respect to the Final Approval Condition (as defined below under the caption "—Conditions of the Merger") which may not be waived by the Company, waiver of all other conditions to closing under the merger agreement.

Treatment of Our Series B Preferred Stock

Following the merger effective time, holders of our Series B Preferred Stock will have no further ownership interest in the surviving corporation. Instead, each outstanding share of our Series B Preferred Stock (other than (i) shares of Series B Preferred Stock owned by us or any of our direct or indirect subsidiaries and (ii) shares held by holders who have properly demanded and perfected their rights to be paid the "fair value" of such shares in accordance with Chapter 23 of the TBCA) immediately prior to the effective time will automatically be converted into, and canceled in exchange for, the right to receive $26.00 in cash, without interest and less any applicable withholding taxes (the "merger consideration"). If the merger is approved and the Stipulation has been finally approved by the Court, PFD Holdings may elect to cancel the shares of our Series B Preferred Stock that it owns in lieu of accepting the merger consideration by contributing such shares of our Series B Preferred Stock to a newly formed subsidiary, which subsidiary will then be contributed to the Company immediately prior to the merger effective time in exchange for newly issued shares of our common stock. If such election is made, such shares of our Series B Preferred Stock will, immediately prior to the merger effective time, be cancelled without payment of any consideration to PFD Holdings.

Treatment of Our Series C Preferred Stock

Following the merger effective time, holders of our Series C Preferred Stock will have no further ownership interest in the surviving corporation. Instead, each outstanding share of our Series C Preferred Stock (other than (i) shares of Series C Preferred Stock owned by us or any of our direct or indirect subsidiaries and (ii) shares held by holders who have properly demanded and perfected their rights to be paid the "fair value" of such shares in accordance with Chapter 23 of the TBCA) immediately prior to the effective time will automatically be converted into, and canceled in exchange for, the right to receive the merger consideration of $26.00 in cash,

without interest and less any applicable withholding taxes. If the merger is approved and the Stipulation has been finally approved by the Court, PFD Holdings may elect to cancel the shares of our Series C Preferred Stock that it owns in lieu of accepting the merger consideration by contributing such shares of our Series C Preferred Stock to a newly formed subsidiary, which subsidiary will then be contributed to the Company immediately prior to the merger effective time in exchange for newly issued shares of our common stock. If such election is made, such shares of our Series C Preferred Stock will, immediately prior to the merger effective time, be cancelled without payment of any consideration to PFD Holdings.

Effect of the Merger on the Ownership of the Company

Except with respect to holders who have properly demanded and perfected their rights to be paid the "fair value" of such shares in accordance with Chapter 23 of the TBCA as described in this proxy statement under the caption "Dissenters' Rights," after the merger, each of our outstanding stock certificates representing any shares of our capital stock, including shares of our Series B Preferred Stock and our Series C Preferred Stock, will represent only the right to receive the merger consideration, if any, as described in this proxy statement. The merger consideration paid upon surrender of each certificate of our Series B Preferred Stock and our Series C Preferred Stock will be paid in full satisfaction of all rights pertaining to such shares of our Series B Preferred Stock and our Series C Preferred Stock. Following the merger effective time, we will be a wholly-owned subsidiary of Parent (who is wholly-owned by Whitehall).

Merger Effective Time

The merger agreement provides that, unless otherwise mutually agreed in writing, we will complete the merger on the business day following the day on which the last to be satisfied or waived of the conditions to our obligation to consummate the merger (described below under the caption "—Conditions to the Merger") is satisfied or waived. We intend to complete the merger as promptly as practicable, subject to our receipt of shareholder approval and the satisfaction or, other than with respect to the Final Approval Condition which may not be waived by the Company, waiver of the other conditions to closing. We cannot specify when, or assure you that, all conditions to closing will be satisfied or waived.

Payment Procedures

Prior to the effective time, we (or PFD Holdings and Whitehall) will deposit, or cause to be deposited, with an exchange agent, the aggregate amount of the merger consideration to be paid to the holders of our Series B Preferred Stock and Series C Preferred Stock (other than with respect to (i) shares of Series B Preferred Stock and Series C Preferred Stock owned by us or any of our direct or indirect subsidiaries and (ii) shares held by holders who have properly demanded and perfected their rights to be paid the "fair value" of such shares in accordance with Chapter 23 of the TBCA). Promptly (and in no event more than five business days) after the effective time, we will cause the exchange agent to send a letter of transmittal and instructions to you. A form of letter of transmittal is attached to the merger agreement included as Annex B to this proxy statement. The letter of transmittal and instructions will tell you how to surrender your stock certificates, if any, in exchange for any applicable consideration.

You should not return your stock certificates, if any, with the enclosed proxy card and you should not forward your stock certificates to the exchange agent without a letter of transmittal.

Holders of our Series B Preferred Stock and Series C Preferred Stock will not be entitled to receive the merger consideration until after they surrender their certificate or certificates to the exchange agent, together with a duly completed and executed letter of transmittal and any other documents the exchange agent may reasonably require. The letter of transmittal, a form of which is attached to the merger agreement included as Annex B to this proxy statement, will contain a broad release from all claims (known or unknown), whether individual, direct, class, derivative, representative, legal, equitable, or any other type or in any other capacity, by holders and former holders of our Series B Preferred Stock and Series C Preferred Stock (1) related to their purchase, sale, holding or investment in, or the terms of, the securities of the Company or its predecessors, including, without limitation, the Preferred Stock, (2) claims asserted or that could have been asserted in the Action, or arising out of or relating to the facts, matters and transactions

alleged in the Action, including, without limitation, claims for breach of contract, claims for breach of fiduciary duties, claims for violations of the TBCA, and/or (3) arising out of the merger that is a component of the Stipulation, including, without limitation claims related to the sufficiency of the merger process and the proxy statement, and claims for breach of the fiduciary duties. The letter of transmittal contains important terms relating to the merger and should be reviewed carefully in its entirety.

You will not be entitled to receive the merger consideration until you surrender your certificate or certificates to the exchange agent, together with a duly completed and executed letter of transmittal and any other documents the exchange agent may reasonably require. The merger consideration may be paid to a person other than the person in whose name the corresponding certificate is registered if (1) the certificate is properly endorsed or is otherwise in the proper form for transfer and (2) the person requesting payment either pays any applicable transfer or other taxes or establishes to our satisfaction that such taxes have been paid or are not applicable.

Each of the exchange agent, the surviving corporation and the Company will be entitled to deduct and withhold any applicable taxes from the merger consideration.

None of the surviving corporation, Merger Sub, Parent, the Company or the exchange agent will be liable to any person for any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. Any portion of the merger consideration deposited with the exchange agent that remains undistributed to the holders of certificates evidencing shares of our Series B Preferred Stock or Series C Preferred Stock for one year after the effective time will be delivered to the surviving corporation, unless otherwise ordered by the Court in the Action. Holders of shares of our Series B Preferred Stock or Series C Preferred Stock who have not surrendered their certificates within one year after the effective time may look only to the surviving corporation for the payment of their merger consideration.

If you have lost a certificate, or if it has been stolen or destroyed, before you are entitled to receive the merger consideration, you will be required to make an affidavit of that fact and, if required by us or the surviving corporation, to post a bond in the form and in an amount reasonably required by us or the surviving corporation as indemnity against any claim that may be made against us or the surviving corporation with respect to such certificate.

Conditions to the Merger

The merger will be completed only if the conditions specified in the merger agreement are either satisfied or waived (to the extent permissible). The merger agreement provides that our obligation to complete the merger is subject to the satisfaction or, other than with respect to the Final Approval Condition which may not be waived by the Company, waiver by us of the following conditions:

- the approval of the merger agreement by the affirmative vote of a majority of all the votes entitled to be cast by the holders of our outstanding capital stock, including the Series B Preferred Stock and the Series C Preferred Stock, as of the record date for the special meeting, each voting as separate voting groups;

- the approval of the amendment to the Amended and Restated Charter by the affirmative vote of at least 66 2/3% of votes entitled to be cast by the holders of our outstanding Series B Preferred Stock and Series C Preferred Stock as of the record date for the special meeting, voting as a single class;

- holders of no more than 7.5% of the outstanding shares of the Preferred Stock delivering (and not withdrawing), prior to the special meeting, written notice of their intent to demand payment if the merger is effectuated, pursuant to Section 48-23-202 of the TBCA (provided that if this condition is not satisfied as of the special meeting, this condition will nonetheless be deemed satisfied if within ten business days following the special meeting holders of the Series B Preferred Stock and Series C Preferred Stock have taken actions irrevocably causing holders with fewer than 7.5% of the outstanding shares of the Preferred Stock in the aggregate to be eligible to exercise dissenters' rights pursuant to Chapter 23 of the TBCA);

- the final approval and entry of a final and non-appealable order and judgment of the Stipulation by the United States District Court for the Western District of Tennessee (the "Final Approval Condition"); and

- the absence of any law or order, whether temporary, preliminary or permanent, being enacted, issued, entered, promulgated or enforced by any governmental authority having jurisdiction over the parties to the merger agreement being in effect which makes illegal, enjoins, prohibits or otherwise prevents the consummation of the merger and the other transactions contemplated by the merger agreement or the Stipulation.

Because the Company is now registered under the Exchange Act, we will be required to provide shareholders with a transaction statement on Schedule 13e-3 under the Exchange Act at least 30 days prior to completion of the merger. We expect to file a transaction statement on Schedule 13e-3 shortly after the merger agreement is approved at the special meeting. As long as the Company remains registered under the Exchange Act, the merger cannot be completed until the Company complies with the requirements of Rule 13e-3 as promulgated under the Exchange Act.

Termination

The merger agreement may be terminated and the transactions contemplated thereby may be abandoned at any time prior to the effective time, whether before or after any approval of the matters presented in connection with the merger by the shareholders of the Company and Merger Sub, only in accordance with the Stipulation.

Amendment

The merger agreement may not be amended except by an instrument in writing signed by the parties.

Dissenters' Rights

Dissenters' rights are available to holders of our Series B Preferred Stock and our Series C Preferred Stock under the TBCA in connection with the proposal to approve the merger agreement in the event that the merger is consummated. Please see the disclosure in this proxy statement under the caption "Dissenters' Rights" for a discussion of the availability of dissenters' rights and the procedures required to be followed to assert these rights in connection with the proposal to approve the merger agreement.

ADJOURNMENT OF THE SPECIAL MEETING (PROPOSAL 3)

We may ask our shareholders to vote on a proposal to adjourn the special meeting, if necessary or appropriate, including to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the amendment to our Amended and Restated Charter. Any adjournment may be made without notice, other than by an announcement made at the special meeting of the time, date and place of the adjourned meeting, unless a new record date must be set. Whether or not a quorum exists, holders of at least a majority of the votes cast by the holders of a class of our Series B Preferred Stock and/or our Series C Preferred Stock present in person or represented by proxy at the special meeting and entitled to vote at the special meeting may vote to adjourn the special meeting with respect to their respective shares of our Series B Preferred Stock and/or our Series C Preferred Stock. The chair of the special meeting may also adjourn the special meeting with respect to our Series B Preferred Stock and/or our Series C Preferred Stock for which a quorum is not obtained.

DISSENTERS' RIGHTS

Under the TBCA, if you are a holder of our Series B Preferred Stock or Series C Preferred Stock and do not vote in favor of the amendment to our Amended and Restated Charter or the merger agreement, you have the right to seek an appraisal of the fair value of your Series B Preferred Stock and Series C Preferred Stock in connection with the amendment to our Amended and Restated Charter or in connection with the merger agreement, respectively, and to receive a cash payment of such fair value (provided that in no event will you be entitled to more than one payment for your shares). Shareholders electing to exercise dissenters' rights must comply with the provisions of Chapter 23 of the TBCA in order to perfect their rights. We will require strict compliance with the statutory procedures. A copy of Chapter 23 of the TBCA is attached as Annex D to this proxy statement.

The following is intended as a brief summary of the material provisions of the TBCA procedures required to be followed by a shareholder in order to dissent in connection with the amendment to our Amended and Restated Charter or the merger and perfect the shareholder's dissenters' rights. This summary, however, is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Chapter 23 of the TBCA, the full text of which is attached to this proxy statement as Annex D.

Holders of our Series B Preferred Stock and Series C Preferred Stock in connection with the amendment to our Amended and Restated Charter or in connection with the merger agreement, who do not vote in favor of (or who abstain from voting on) the amendment to our Amended and Restated Charter or merger agreement, respectively, and who perfect their dissenters' rights by complying with the provisions of Chapter 23 of the TBCA, will have the right to receive cash payment for the "fair value" of their preferred stock.

In order to be eligible to exercise the right to dissent, you must file with the Company a written notice of your intent to demand payment if the amendment to our Amended and Restated Charter or merger, respectively, is effectuated. Such notice must be filed before the vote is taken at the special meeting, and it must be addressed as follows: Corporate Secretary, W2007 Grace Acquisition I, Inc., 6011 Connection Drive, Irving, TX 75039. It is not necessary for a dissenting shareholder to vote "AGAINST" the amendment to our Amended and Restated Charter or merger agreement, respectively, to preserve dissenters' rights; however, such rights will be lost if you vote in favor of the amendment to our Amended and Restated Charter or the merger agreement, respectively.

If the amendment to our Amended and Restated Charter or the merger agreement is approved, we will deliver a written notice to dissenting shareholders no later than ten days after the amendment to our Amended and Restated Charter or the merger becomes effective, respectively, unless the amendment to our Amended and Restated Charter is abandoned or the merger agreement is terminated and abandoned. The notice will set forth where the dissenting shareholders' payment demands must be sent and where and when stock certificates must be deposited. The notice will also supply a form for dissenting shareholders to use in demanding payment. A dissenting shareholder must deliver his, her or its payment demand to us no later than the date set forth in such notice, which date may not be fewer than forty or more than sixty days after the written notice is sent. Merely abstaining from or voting "AGAINST" the amendment to our Amended and Restated Charter or the merger agreement will not satisfy the two requirements that the shareholder (i) file a notice in writing of his intention to demand payment before the vote is taken and (ii) file a written demand for payment within such sixty-day period. Failure of a shareholder to take the required action during the sixty-day period precludes the exercise of dissenters' rights.

Within the sixty-day period, a dissenting shareholder must submit the shareholder's stock certificates representing the shareholder's shares in accordance with the terms of our notice. As soon as practicable after the amendment to our Amended and Restated Charter or merger is effectuated, as applicable, or upon receipt of a dissenting shareholder's payment demand, whichever is later, we shall pay each dissenting shareholder our estimate of the fair value of the shareholder's shares, plus accrued interest.

If a dissenting shareholder believes that the amount paid by the Company is less than the fair value of the shares or that interest due was incorrectly calculated, the dissenting shareholder must, within one month after we have made or offered payment to the dissenting shareholder, notify us in writing of the dissenters' own estimate of the fair value and the amount of interest due and demand payment of the shareholder's estimate of the fair value. If a demand for payment remains unsettled, we must commence a suit in a court having equity jurisdiction located in Shelby County, Tennessee, within two months after receiving the dissenting shareholder's payment demand. All

dissenting shareholders will be made a party to the proceeding and will be served with a copy of the petition. The court shall determine the fair value of the shares and accrued interest. The costs and expenses of such proceedings shall be assessed against us unless the court finds the actions of a dissenting shareholder who is party to the suit to be arbitrary, vexatious or not in good faith. If we fail to bring such a suit within such time, we shall pay each dissenting shareholder whose demand remains unsettled the amount demanded.

Section 48-23-101 of the TBCA provides that the "fair value" of a dissenter's shares shall be determined immediately before the effectuation of the corporate action, "excluding any appreciation or depreciation of shares in anticipation of the corporate action." The value so determined could be more or less than the redemption value of the merger consideration.

Any holder of our Series B Preferred Stock and/or our Series C Preferred Stock contemplating the exercise of dissenters' rights should carefully review Chapter 23 of the TBCA, a copy of which is attached to this proxy statement as Annex D. A shareholder who fails to comply with all requirements of Chapter 23 of the TBCA will forfeit such holder's dissenters' rights and, in the event the merger is consummated, will only have the right to receive the merger consideration. See "Approval of the Merger Agreement (Proposal 2)."

In view of the complexity of Chapter 23, holders of our Series B Preferred Stock and/or our Series C Preferred Stock who may wish to pursue dissenters' rights should consult their legal advisors. The above summary is qualified in its entirety by reference to Chapter 23 of the TBCA, a copy of which is attached to this proxy statement as Annex D.

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Annex A – Proposed Amendment to the Amended and Restated Charter of W2007 Grace Acquisition I, Inc.

ARTICLES OF AMENDMENT

OF THE

AMENDED AND RESTATED CHARTER

OF

W2007 GRACE ACQUISITION I, INC.

Pursuant to the provisions of Section 48-20-101, Section 48-20-103, Section 48-20-104 and Section 48-20-106 of the Tennessee Business Corporations Act

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W2007 Grace Acquisition I, Inc., a Tennessee corporation (hereinafter called the "Corporation"), does hereby certify as follows:

1. The name of the Corporation is W2007 Grace Acquisition I, Inc.

2. The Corporation's Amended and Restated Charter is hereby amended as set forth below:

FIRST: Article 5(b)(6)(C) of the Corporation's Charter is hereby amended and restated to read in its entirety as set forth below:

"(C) The affirmative vote or consent of at least a majority of the votes entitled to be cast by the holders of the outstanding shares of Series B Preferred Stock and the holders of all other classes or series of Preferred Stock entitled to vote on such matters, voting as a single class, will be required to (i) authorize the creation of, the increase in the authorized amount of, or issuance of any shares of any class of Senior Stock or any security convertible into shares of any class of Senior Stock or (ii) amend, alter or repeal any provision of, or add any provision to, the Charter, including any Articles of Amendment, or the Corporation's bylaws, if such action would materially adversely affect the voting powers, rights or preferences of the holders of the Series B Preferred Stock. The amendment of the Charter to authorize, create, or to increase the authorized amount of Junior Stock or any shares of any class of Parity Stock, shall not be deemed to materially adversely affect the voting powers, rights or preferences of the holders of Series B Preferred Stock. No such vote of the holders Series B Preferred Stock as described above shall be required if provision is made to redeem all shares of Series B Preferred Stock at or prior to the time such amendment, alteration or repeal is to take effect, or when the issuance of any such shares or convertible security is to be made, as the case may be."

SECOND: Article 5(c)(7)(C) of the Corporation's Charter is hereby amended and restated to read in its entirety as set forth below:

"(C) The affirmative vote or consent of at least a majority of the votes entitled to be cast by the holders of the outstanding shares of Series C Preferred Stock and the holders of all other classes or series of Preferred Stock entitled to vote on such matters, voting as a single class, will be required to (i) authorize the creation of, the increase in the authorized amount of, or issuance of any shares of any class of Senior Stock or any security convertible into shares of any class of Senior Stock or (ii) amend, alter or repeal any provision of, or add any provision to, the Charter, including the Articles of Amendment, or the Corporation's bylaws, if such action would materially adversely affect the voting powers, rights or preferences of the holders of the Series C Preferred Stock. The amendment of the Charter to authorize, create, or increase the authorized amount of Junior Stock or any shares of any class of Parity Stock, shall not be deemed to materially adversely affect the voting powers, rights or preferences of the holders of Series C Preferred Stock. No such vote of the holders Series C Preferred Stock as described above shall be required if provision is made to redeem all shares of Series C Preferred Stock at or prior to the time such amendment, alteration or repeal is to take effect, or when the issuance of any such shares or convertible security is to be made, as the case may be."

3. The amendments to the Corporations Amended and Restated Charter set forth herein required the approval by the shareholders of the Corporation's Series B Preferred Stock and Series C Preferred Stock and this amendment was duly adopted by such shareholders on the [●] day of [●], 2015, in accordance with the Tennessee Business Corporations Act.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be duly executed this ____ day of [●], 201_.

W2007 Grace Acquisition I, Inc.

By: _____
Name:
Title:

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Annex B – Agreement and Plan of Merger, dated as of May 10, 2015, by and among W2007 Grace Acquisition I, Inc., W2007 Grace II, LLC, W2007 Grace Acquisition II, Inc., and, solely for purposes of certain payment obligations contained thereunder, PFD Holdings LLC, Whitehall Parallel Global Real Estate Limited Partnership 2007 and W2007 Finance Sub, LLC

AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger (this "Agreement") is made effective as of May 10, 2015, by and among W2007 Grace Acquisition I, Inc., a Tennessee corporation (the "Company"), W2007 Grace II, LLC, a Tennessee limited liability company ("Parent"), W2007 Grace Acquisition II, Inc., a Tennessee corporation and wholly-owned subsidiary of Parent ("Merger Sub") and solely for purposes of Section 2.2(a), PFD Holdings, LLC, a Delaware limited liability company ("PFD Holdings"), Whitehall Parallel Global Real Estate Limited Partnership 2007, a Delaware limited partnership ("Whitehall Parallel"), and W2007 Finance Sub, LLC, a Delaware limited liability company ("Finance Sub", and together with PFD Holdings, Whitehall Parallel, the "Whitehall Parties").

WITNESSETH:

WHEREAS, the board of directors of the Company has authorized and adopted this Agreement providing for the merger of the Company with and into Merger Sub in accordance with the Tennessee Business Corporation Act (the "TBCA"), upon the terms and subject to the conditions set forth in this Agreement (the "Merger");

WHEREAS, (a) W2007 Grace I, LLC, a Tennessee limited liability company and holder of 100% of the common stock, par value $0.01 per share, of the Company ("Company Common Stock") and (b) the holder of a majority of the Company's Series D Cumulative Preferred Stock, par value $0.01 per share (the "Series D Preferred Stock"), have agreed to deliver unanimous written consents to approve this Agreement promptly after the execution hereof;

WHEREAS, the board of directors of Merger Sub has determined that this Agreement is in the best interests of Merger Sub and its sole shareholder, Parent, and has adopted and approved this Agreement providing for the Merger;

WHEREAS, the Company is a defendant in the action *David Johnson, et al. v. W2007 Grace Acquisition I Inc., et al.*, No. 2:13-cv-02777 (W.D. Tenn.) (the "Action") pursuant to which the plaintiffs therein (the "Plaintiffs") and the Company, among other defendants, reached a stipulation of settlement (the "Stipulation"), of which this Agreement and the transactions contemplated hereby form a material part, after extensive negotiation with current and former shareholders of the Company, including through counsel; and

WHEREAS, PFD Holdings, Whitehall Parallel, and Finance Sub are parties to this Agreement solely for the purposes of the payment obligations with respect to the aggregate Merger Consideration (as defined herein) as set forth in Section 2.2(a).

NOW, THEREFORE, in consideration of the promises and mutual covenants, conditions and agreements set forth herein, the parties hereto hereby agree as follows:

ARTICLE I
THE MERGER

1.1 Merger. Subject to the terms and conditions hereinafter set forth at the Effective Time (as defined herein), the Company will be merged with and into Merger Sub and will cease to exist, and Merger Sub will be the surviving corporation (the "Surviving Corporation").

1.2 Closing. Unless otherwise mutually agreed in writing between Parent and the Company, the closing of the Merger (the "Closing") shall take place at 9:00 a.m. (Eastern Time) on the business day following the day on which the last of the conditions set forth in Article IV shall be satisfied or waived in accordance with this Agreement.

1.3 Effective Time. As soon as practicable following the Closing, Merger Sub and the Company will cause the articles of merger (the "Tennessee Articles of Merger") to be executed, acknowledged and filed with the Secretary of State of the State of Tennessee as provided in Section 48-21-107 of the TBCA. The Merger shall become effective at the time when the Tennessee Articles of Merger has been duly filed with the Secretary of State of the State of Tennessee or at such later time as may be specified in the Tennessee Articles of Merger (the "Effective Time").

1.4 Effects of the Merger. The Merger shall have the effects provided for in this Agreement, the Tennessee Articles of Merger and the applicable provisions of the TBCA.

1.5 Governing Documents. The charter and bylaws of Merger Sub, as in effect immediately prior to the Effective Time, shall be the charter and bylaws of the Surviving Corporation until thereafter amended in accordance with the provisions thereof and as provided by applicable Law.

ARTICLE II
CONVERSION; EXCHANGE

2.1 Conversion of Capital Stock. At the Effective Time, by virtue of the Merger and without further action on part of the Company, Merger Sub, or the shareholders of the Company:

(a) Each share of common stock, par value $0.01 per share, of Merger Sub immediately prior to the Effective Time shall remain as one share of common stock, par value $0.01 per share, of the Surviving Corporation.

(b) Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time shall be canceled without consideration.

(c) Each share of the Company's 8.75% Series B Cumulative Preferred Stock, par value $0.01 per share (the "Series B Preferred Stock"), issued and outstanding immediately prior to the Effective Time (other than (i) shares of Series B Preferred Stock owned by the Company or any direct or indirect wholly-owned subsidiary of the Company and (ii) Dissenting

Shares (as defined below)) shall be converted into, and shall be canceled in exchange for, the right to receive $26.00 in cash, without interest and less any applicable withholding taxes.

(d) Each share of the Company's 9.00% Series C Cumulative Preferred Stock, par value $0.01 per share (the "Series C Preferred Stock", and together with the Series B Preferred Stock, the "Preferred Stock") issued and outstanding immediately prior to the Effective Time (other than (i) shares of Series C Preferred Stock owned by the Company or any direct or indirect wholly-owned subsidiary of the Company and (ii) Dissenting Shares (as defined below)) shall be converted into, and shall be canceled in exchange for, the right to receive $26.00 in cash, without interest and less any applicable withholding taxes (the aggregate cash consideration payable pursuant to Section 2.1(c) and this Section 2.1(d), the "Merger Consideration").

(e) Each share of the Series D Preferred Stock, issued and outstanding immediately prior to the Effective Time shall be canceled without consideration.

(f) Each share of Preferred Stock owned by the Company or any direct or indirect wholly-owned subsidiary of the Company and each Dissenting Share (collectively, "Excluded Shares") shall, by virtue of the Merger and without any action on the part of the holder of the Excluded Share, cease to be outstanding, be cancelled without payment of any consideration therefor and shall cease to exist, subject to any rights the holder thereof may have under Section 2.4.

2.2 Exchange Procedures.

(a) Exchange Agent. Prior to the Effective Time, the Company shall appoint Computershare Trust Company, N.A. or another bank or trust company reasonably acceptable to it to act as Exchange Agent (the "Exchange Agent") in accordance with an agreement reasonably satisfactory to the Company for the payment or exchange, as applicable, in accordance with this Article II, of the Merger Consideration (such cash is referred to as the "Exchange Fund"). On or before the Effective Time, the Company (or the Whitehall Parties) shall deposit, or cause to be deposited, with the Exchange Agent the aggregate amount of the Merger Consideration to be paid to the holders of Preferred Stock (other than holders of Excluded Shares). The Company, pursuant to irrevocable instructions, shall cause the Exchange Agent to make, and the Exchange Agent shall make, payments of the Merger Consideration out of the Exchange Fund in accordance with this Agreement. The Exchange Fund shall not be used for any other purpose. All expenses of the Exchange Agent shall be paid by the Company or the Surviving Corporation.

(b) Exchange Procedures for Preferred Stock. Promptly after the Effective Time (but in any event within five (5) Business Days), the Company shall cause the Exchange Agent to mail to each Person who immediately prior to the Effective Time held of record shares of Preferred Stock (each, a "Former Holder"), pursuant to Section 2.1: (A) a letter of transmittal (which shall specify that delivery of certificates representing Preferred Stock (the "Preferred Stock Certificates") shall be effected, and risk of loss and title to the Preferred Stock Certificates shall pass to the Exchange Agent, only upon delivery of the Preferred Stock Certificates to the Exchange Agent, and which letter shall be substantially in the form attached hereto as Exhibit A) and (B) instructions for use in effecting the surrender of the Former Holder's Preferred Stock Certificates in exchange for the Merger Consideration to which the holder thereof is entitled.

Upon (A) surrender by a Former Holder of a Preferred Stock Certificate for cancellation to the Exchange Agent, and (B) delivery by such Former Holder of such letter of transmittal (together with such Preferred Stock Certificate), duly executed and completed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, such Former Holder shall receive in exchange for each share of Preferred Stock represented by such Preferred Stock Certificate the Merger Consideration payable in respect of such shares of Preferred Stock, pursuant to the provisions of this Article II, and the Preferred Stock Certificate so surrendered shall forthwith be canceled. The right of any Former Holder to receive the Merger Consideration shall be subject to and reduced by any applicable withholding obligation as set forth in Section 2.3. In the event of a transfer of ownership of shares of Preferred Stock that is not registered in the transfer records of the Company, payment may be made to a Person other than the Person in whose name the Preferred Stock Certificate so surrendered is registered, if such Preferred Stock Certificate shall be properly endorsed or otherwise be in proper form for transfer and the Person requesting such payment shall pay any transfer or other taxes required by reason of the payment to a Person other than the registered holder of such Preferred Stock Certificate or establish to the satisfaction of the Company that such tax has been paid or is not applicable. Until surrendered as contemplated by this Section 2.2, each Preferred Stock Certificate (other than any Preferred Stock Certificate in respect of Excluded Shares) shall be deemed at any time after the Effective Time to represent only the right to receive, upon such surrender, the Merger Consideration as contemplated by this Section 2.2.

(c) No Further Ownership Rights. At the Effective Time, holders of Preferred Stock shall cease to be, and shall have no rights as, shareholders of the Company other than the right to receive the applicable Merger Consideration provided under this Article II, except as otherwise provided for herein (including without limitation with respect to the Dissenting Shares as provided under Section 2.4) or by applicable Law. The applicable Merger Consideration paid in accordance with the terms of this Article II shall be deemed to have been paid in full satisfaction of all rights and privileges pertaining to the Preferred Stock exchanged therefor and represented by Preferred Stock Certificates exchanged therefor.

(d) Lost Preferred Stock Certificate. In the event that any Preferred Stock Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming ownership of such Preferred Stock Certificate and that it is lost, stolen or destroyed, delivery of a properly executed letter of transmittal and, if required by the Company or Surviving Corporation, the posting by such Person of a bond in such reasonable amount as the Company or Surviving Corporation may require as indemnity against any claim that may be made against it with respect to such Preferred Stock Certificate, the Exchange Agent will issue, in exchange for such lost, stolen or destroyed Preferred Stock Certificate, the Merger Consideration payable in respect thereof pursuant to this Agreement.

(e) Termination of Exchange Fund. Any portion of the Exchange Fund that remains unclaimed by the former holders of Preferred Stock one year after the Effective Time shall be delivered to the Surviving Corporation upon demand, unless such time is extended by agreement of the parties hereto, or by order of the Court in the Action. Any such holders who have not complied with this Article II prior to that time shall thereafter look only to the Surviving Corporation, and the Surviving Corporation shall thereafter be liable, for payment of

the applicable Merger Consideration (subject to abandoned property, escheat and similar Laws). Any such portion of the Exchange Fund remaining unclaimed by holders of Preferred Stock immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity shall, to the extent permitted by applicable Law, become the property of the Surviving Corporation free and clear of all claims or interest of any Persons previously entitled thereto.

(f) No Liability. None of the Surviving Corporation, Merger Sub, Parent, the Company or the Exchange Agent, or any employee, officer, director, agent or Affiliate thereof, shall be liable to any Person in respect of any cash from the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar Law.

2.3 Withholding Taxes. The Surviving Corporation, the Company or Exchange Agent, as applicable shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of Preferred Stock any amounts it is required to deduct and withhold with respect to the making of such payment under the Internal Revenue Code of 1986, as amended, the Treasury regulations promulgated thereunder, or any provision of state, local or foreign tax Law and shall, to the extent so withheld, promptly pay or cause to be paid any such amounts to the appropriate Governmental Entity as required by applicable Law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of Preferred Stock in respect of which such deduction and withholding was made.

2.4 Dissenting Shares. Notwithstanding anything in this Agreement to the contrary, shares of Company Common Stock, Preferred Stock or Series D Preferred Stock that are issued and outstanding immediately prior to the Effective Time and which are held by holders of shares of Company Common Stock, Preferred Stock or Series D Preferred Stock who are entitled to demand and who have properly demanded and perfected their rights to be paid the "fair value" of such shares in accordance with Title 48, Chapter 23 of the TBCA (the "Dissenting Shares") shall be entitled to only such rights, if any, as are granted by Title 48, Chapter 23 of the TBCA; provided, however, that if any such holder shall fail to perfect or shall effectively waive, withdraw or lose such holder's rights under Title 48, Chapter 23 of the TBCA, such holder's shares of Company Common Stock, Preferred Stock or Series D Preferred Stock shall thereupon cease to be Dissenting Shares.

ARTICLE III
COVENANTS

3.1 Shareholders' Meeting. The Company shall, in accordance with applicable Law and the Amended and Restated Charter of the Company (the "Company Charter") and Company's Bylaws, duly call, give notice of, convene and hold the Shareholders' Meeting as set forth in the Stipulation.

3.2 Proxy Statement. The Company shall prepare and cause to be mailed to all shareholders of the Company a proxy statement in substantially the form attached to the Stipulation relating to the Merger, which proxy shall not contain any recommendation by the

Company or its board of directors with respect to how to vote, but shall include instead the basis for the board of directors' determination that it should not make any recommendation.

ARTICLE IV
CONDITIONS

4.1 Conditions to the Company's Obligation. The Company's obligation to consummate the Merger shall be conditioned upon the satisfaction or, other than with respect to the Final Approval Condition (as defined below) which may not be waived by the Company, waiver by the Company of each of the following conditions precedent on or before the Effective Time:

(a) The Agreement shall be approved by the affirmative vote of a majority of all the votes entitled to be cast by the holders of the outstanding Series B Preferred Stock and Series C Preferred Stock as of the record date at a shareholders meeting called for such purpose (the "Shareholders' Meeting"), each voting as separate classes (the "Shareholders' Approval").

(b) An amendment to the Company Charter in the form attached as Exhibit B hereto (the "Amendment") shall have been approved by the affirmative vote of at least 66 2/3% of votes entitled to be cast by the holders of the Series B Preferred Stock and the Series C Preferred Stock as of the record date at the Shareholders' Meeting, voting as a single class.

(c) Holders in respect of no more than 7.5% of the outstanding shares of Preferred Stock (other than shares held by the Company, the Whitehall Parties and their affiliates) shall have delivered to the Company (and not withdrawn), prior to the Shareholders' Meeting, written notice of their intent to demand payment if the Merger or the Amendment is effectuated, pursuant to Section 48-23-202 of the TBCA; provided, however, if as of the Shareholders' Meeting this condition shall not then be satisfied, this condition shall nonetheless be deemed satisfied if, within ten business days following the Shareholders' Meeting, holders of Preferred Stock have taken actions with the effect of irrevocably causing holders with fewer than 7.5% of the outstanding shares of Preferred Stock (other than shares held by the Company, the Whitehall Parties and their affiliates) in the aggregate to be eligible to exercise dissenters' rights pursuant to Chapter 23, Title 48 of the TBCA.

(d) The Stipulation shall have been finally approved by the District Court for the Western District of Tennessee, and a final order and judgment that is no longer appealable with respect thereto shall have been entered (the "Final Approval Condition").

(e) No Law or order, whether temporary, preliminary or permanent, shall have been enacted, issued, entered, promulgated or enforced by any Governmental Entity having jurisdiction over the parties which shall be in effect making illegal, enjoining, prohibiting or otherwise preventing the consummation of the Merger or the other transactions contemplated by this Agreement or the Stipulation.

ARTICLE V
MISCELLANEOUS

5.1 Termination or Abandonment. This Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Effective Time, whether before or after any approval of the matters presented in connection with the Merger by the shareholders of the Company and Merger Sub only in accordance with the Stipulation.

5.2 Amendment. This Agreement may not be amended except by an instrument in writing signed by the parties hereto as approved by the respective board of directors of each of the Company and Merger Sub; provided, however, that, after the Shareholder Approval, no amendment may be made without further shareholder approval (in the same manner as otherwise required under this Agreement) which (i) changes the Merger Consideration or (ii) by Law requires further approval by such shareholders without first obtaining such further shareholder approval.

5.3 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

5.4 Severability. If any term or provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby are not affected in any manner materially adverse to any party.

5.5 Entire Agreement. This Agreement, including the document and instruments referred to herein, constitutes the entire agreement and supersedes all other prior agreements and undertakings, both written and oral, between the parties or any of them with respect to the subject matter hereof.

5.6 Remedies. Except as otherwise expressly provided herein, this Agreement is not intended to confer upon any Person not a party to any rights or remedies hereunder; provided, however, the Plaintiffs shall be express third party beneficiaries of this Agreement.

5.7 Governing Law.

(a) THIS AGREEMENT SHALL BE DEEMED TO BE MADE IN AND IN ALL RESPECTS SHALL BE INTERPRETED, CONSTRUED AND GOVERNED BY AND IN ACCORDANCE WITH THE LAW OF THE STATE OF TENNESSEE WITHOUT REGARD TO THE CONFLICTS OF LAW PRINCIPLES THEREOF TO THE EXTENT THAT SUCH PRINCIPLES WOULD DIRECT A MATTER TO ANOTHER JURISDICTION. The parties hereby irrevocably submit to the personal jurisdiction of the courts of the State of Tennessee and the Federal courts of the United States of America located in the State of Tennessee solely in respect of the interpretation and enforcement of the provisions of this Agreement and of the documents referred to in this Agreement, and in respect of the transactions contemplated hereby, and hereby waive, and agree not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or of any such document, that it is not

subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement or any such document may not be enforced in or by such courts, and the parties hereto irrevocably agree that all claims relating to such action, proceeding or transactions shall be heard and determined in such a Tennessee State or Federal court. The parties hereby consent to and grant any such court jurisdiction over the person of such parties and, to the extent permitted by Law, over the subject matter of such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in any such manner as may be permitted by Law shall be valid and sufficient service thereof.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) EACH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (iv) EACH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 5.9.

5.8 Certain Defined Terms. For the purposes of this Agreement, unless the context requires otherwise, the following terms shall have the following meanings:

"Affiliate" when used with respect to any party shall mean any Person who is an "affiliate" of that party within the meaning of Rule 405 promulgated under the Securities Act of 1934, as amended.

"Business Day" shall mean Monday through Friday of each week, except a legal holiday recognized as such by the United States federal government or any day on which banking institutions in the City of New York or the State of Tennessee are authorized or obligated to close.

"Governmental Entity" shall mean any domestic or foreign governmental or regulatory authority, agency, commission, body, court or other legislative, executive or judicial governmental entity.

"Law" shall mean any federal, state, local or foreign law, statute, ordinance, rule, regulation, judgment, order, injunction, decree, arbitration award, agency requirement, license or permit of any Governmental Entity.

"Person" shall mean any individual, corporation (including not-for-profit), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, Governmental Entity or other entity of any kind or nature.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

THE COMPANY:

W2007 GRACE ACQUISITION I, INC.

By: /s/ Greg Fay
Name: Greg Fay
Title: Vice President

PARENT:

W2007 GRACE II, LLC

By: /s/ Greg Fay
Name: Greg Fay
Title: Manager

MERGER SUB:

W2007 GRACE ACQUISITION II, INC.

By: /s/ Greg Fay
Name: Greg Fay
Title: Vice President

THE WHITEHALL PARTIES (SOLELY FOR PURPOSES OF SECTION 2.2):

PFD HOLDINGS, LLC

By: W2007 Finance Sub, LLC, its Managing Member

By: Whitehall Street Global Real Estate Limited Partnership 2007, its Managing Member

By: WH Advisors, L.L.C. 2007, its General Partner

By: /s/ Patrick Tribolet
Name: Patrick Tribolet
Title: Vice President

W2007 FINANCE SUB, LLC:

By: Whitehall Street Global Real Estate Limited Partnership 2007, its Managing Member

By: WH Advisors, L.L.C. 2007, its General Partner

By: /s/ Patrick Tribolet
Name: Patrick Tribolet
Title: Vice President

Whitehall Parallel Street Global Real Estate Limited Partnership 2007:

By: WH Advisors, L.L.C. 2007, its General Partner

By: /s/ Patrick Tribolet
Name: Patrick Tribolet
Title: Vice President

EXHIBIT A

Letter of Transmittal

To Accompany Certificates Representing
Shares of 8.75% Series B Cumulative Preferred Stock, $0.01 par value per share,
and
Shares of 9.00% Series C Cumulative Preferred Stock, $0.01 par value per share,
of

W2007 Grace Acquisition I, Inc.

(collectively, the "Shares")

This Letter of Transmittal (this "Letter of Transmittal") is sent to you in connection with the Agreement of Merger (the "Merger Agreement"), dated as of May 10, 2015, by and among W2007 Grace Acquisition I, Inc. (the "Company"), W2007 Grace II, LLC ("Parent"), W2007 Grace Acquisition II, Inc. ("Merger Sub"), and solely for purposes of the payment obligations set forth therein, PFD Holdings LLC ("PFD Holdings"), Whitehall Parallel Global Real Estate Limited Partnership 2007 ("Whitehall Parallel") and W2007 Finance Sub, LLC ("Finance Sub"), pursuant to which the Company will merge with and into Merger Sub (the "Merger").

Please return your Letter of Transmittal, together with the certificate(s) representing your Shares to Computershare Trust Company, as indicated below:

COMPUTERSHARE TRUST COMPANY, N.A.

By Mail:	*By Overnight Courier:*
Computershare	Computershare
c/o Corporate Actions Department	c/o Corporate Actions Department
P.O. Box 43014	250 Royall Street
Providence, RI 02940-3011	Canton, MA 02021

For Assistance Call: (855) 396-2084

Please read carefully the accompanying Instructions before completing this Letter of Transmittal. The Instructions contain important information about this Letter of Transmittal and how to submit your certificates representing the Shares. Do not send this Letter of Transmittal, your certificates or any other required documents to the Company. Delivery of this Letter of Transmittal to an address other than as set forth above will not constitute a valid delivery. The method of delivery is at the option and risk of the holder.

List below the Shares to which this Letter of Transmittal relates. If the space provided is inadequate, list the series of Shares and certificate numbers on a separately executed schedule and affix the schedule to this Letter of Transmittal.

DESCRIPTION OF SHARES SURRENDERED				
Name(s) and Address(es) of Holder(s) of Record (Please fill in, if blank)	**Series of Shares**	**Certificate Number(s)**	**Total Number of Shares Represented by Certificate(s)**	**Lost**

If not already printed above, the name(s) and address(es) of the registered holder(s) should be printed exactly as they appear on the certificate(s) representing Shares surrendered hereby.

If you cannot locate some or all of your certificates, read and complete the box entitled “Box A - Lost Certificate(s)” in this Letter of Transmittal and mark the boxes above with an X corresponding to the certificate numbers you cannot locate. You must have your signature(s) notarized. All registered holders MUST sign exactly as the name is printed on the certificate. If your lost certificate(s) is (are) part of an estate or trust, or are valued at more than $250,000, please contact Computershare for additional instructions.

NOTE: SIGNATURES MUST BE PROVIDED BELOW.
PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY.

Ladies and Gentlemen:

This Letter of Transmittal is being provided to assist you in surrendering any certificate(s) you hold in exchange for the consideration to be paid to holders of the Shares pursuant to the Merger Agreement (the "Merger Consideration"), less any required tax deductions or withholdings, to which you are entitled pursuant to the Merger Agreement.

In accordance with the Merger Agreement, at the Effective Time, each of the Shares that was issued and outstanding immediately prior to the Effective Time (other than Excluded Shares) will be, upon the effectiveness of the Merger, canceled and, converted into the right to receive $26.00 in cash, without interest and less any applicable withholding taxes. As the holder of record of Shares, by returning this Letter of Transmittal and the certificate(s) listed below, you hereby surrender to the Exchange Agent your Shares in exchange for your share of the Merger Consideration.

The undersigned hereby represents and warrants and covenants that:

- the undersigned (whether individually or jointly with other holders identified below) has full power and authority to submit, sell, assign and transfer the certificate(s) and that the Shares represented by such certificate(s) are free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim or right;
- the surrender of the certificate(s) is irrevocable;
- the undersigned agrees, upon request, to execute any additional documents necessary to deliver the undersigned's certificates for the Shares for cancellation;
- all authority herein conferred shall survive the death or incapacity of the undersigned, and all of the undersigned's obligations hereunder shall be binding on the undersigned's heirs, successors, assigns, personal representatives, executors, administrators and trustees in bankruptcy;
- the undersigned hereby agree to the release set forth below; and
- (i) the undersigned fully understands the undersigned's rights to discuss all aspects of this Letter of Transmittal with the undersigned's private attorneys, (ii) the undersigned has carefully read and fully understand all of the terms of this Letter of Transmittal, (iii) the undersigned has not transferred or assigned any rights or claims that the undersigned is hereby purporting to release herein, (iv) the undersigned is voluntarily, and with proper and full authority, executing this Letter of Transmittal and (v) the undersigned has had a reasonable period of time to consider the provisions of this Letter of Transmittal, and has considered them carefully before executing this Letter of Transmittal.

By executing this Letter of Transmittal, the undersigned hereby expressly and irrevocably waives and fully, finally and forever settles and releases the Company,

Todd P. Giannoble, Gregory Fay, Brian Nordahl, Daniel E. Smith, Mark Ricketts, The Goldman Sachs Group, Inc., Goldman Sachs Realty Management L.P., Whitehall Parallel Global Real Estate Limited Partnership 2007, W2007 Finance Sub, LLC, W2007 Grace I, LLC and PFD Holdings LLC, their parents, subsidiaries, affiliates, predecessors (including Equity Inns, Inc.), owners, beneficial owners, and investors, and each of their respective past or present directors, officers, employees, agents, attorneys, financial advisors, control persons, representatives, and their predecessors (including Equity Inns, Inc.), successors, and assigns (collectively, the "Released Parties"), from any and all claims (including any and all unknown claims), demands, actions, causes of action, obligations, debts, judgments and liabilities of any kind, nature and description, whether direct or derivative, whether at law or in equity, upon any legal or equitable theory, whether contractual, common law or statutory, whether arising under federal, state, common, or foreign law (including, without limitation, claims under the federal securities laws and regulations, claims for breach of fiduciary duty, breach of contract or corporate charter, or the misstatement of or the failure to disclose material facts), whether secured or unsecured, contingent or absolute, choate or inchoate, liquidated or unliquidated, perfected or unperfected, in any forum, including in arbitration or similar proceedings, including class, derivative, individual or other claims, that previously existed or that currently exist as of the date of the approval of the settlement contemplated by the Stipulation (the "Settlement") by the Court or that may arise in the future against the Released Parties, (1) related to the purchase, sale, holding or investment in, or the terms of, the securities of the Company or its predecessors (including Equity Inns, Inc.), including, without limitation, the Shares, (2) asserted, or that could have been asserted, in the action entitled David Johnson, et al. v. W2007 Grace Acquisition I Inc., et al., No. 2:13-cv-02777 (W.D. Tenn.) (the "Action") or arising out of or relating to the facts, matters and transactions alleged in the Action, including, without limitation, claims for breach of contract, claims for breach of fiduciary duties, and claims for violations of the Tennessee Business Corporation Act, and/or (3) arising out of the Merger, including, without limitation claims related to the sufficiency of the Merger process and the proxy statement, and claims for breach of the fiduciary duties; provided that the released claims do not include claims based upon the interpretation or enforcement of the terms of the Settlement. By executing this Letter of Transmittal, each holder who surrenders Shares pursuant to the Merger Agreement irrevocably and forever expressly waives all rights that such holder may have arising under California Civil Code Section 1542 and all similar rights under the laws of any other applicable jurisdictions with respect to the release granted by such holder pursuant this Letter of Transmittal.

By executing this Letter of Transmittal, the undersigned acknowledges that he, she or it understands that Section 1542 provides that:

> **A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**

By executing this Letter of Transmittal, the undersigned acknowledges that it has been fully informed by its counsel concerning the effect and import of this Merger Agreement under California Civil Code Section 1542 and similar laws of any other

applicable jurisdictions and knowingly waives all rights under Section 1542 and similar laws of other applicable jurisdictions.

The undersigned hereby acknowledges and agrees that (i) the surrender of the certificate(s) pursuant to this Letter of Transmittal in exchange for the Merger Consideration will not be deemed to have occurred unless and until the Exchange Agent has received the respective certificate(s) and this Letter of Transmittal, properly completed and duly executed, together with all accompanying evidence of authority in form and substance reasonably satisfactory to Parent (which may delegate such power in whole or in part to the Exchange Agent), (ii) delivery of such certificate(s) will be effected and risk of loss and title to such certificate(s) will pass only upon proper surrender thereof to the Exchange Agent, and (iii) all questions as to the due execution and proper completion of this Letter of Transmittal, any other documentation delivered herewith or pursuant hereto, and any purported surrender of certificate(s) hereunder will be determined in good faith by Parent (which may delegate such power in whole or in part to the Exchange Agent), which determination will be final and binding on all parties.

The undersigned hereby acknowledges and agrees that, as a result of the Merger, the undersigned ceased to have any rights with respect to or arising from the Shares formerly represented by the certificate(s) hereby surrendered, except the right to receive the Merger Consideration.

THE UNDERSIGNED HEREBY EXPRESSLY ACKNOWLEDGES THAT THE PAYMENT OF THE MERGER CONSIDERATION BEING MADE PURSUANT TO THE MERGER AGREEMENT AND THIS LETTER OF TRANSMITTAL IS BEING MADE ON THE BASIS OF THE FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS OF, AND THE RELEASE BY, THE UNDERSIGNED.

PLEASE COMPLETE AND SIGN BELOW

(This page is to be completed and signed by all surrendering holders.)

Signature(s): _____

(Must be signed by the registered holder(s) exactly as the name(s) appear(s) on certificate(s) representing the surrendered Shares. If signature is by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, please set forth the full title and see Instruction 1.)

Dated: _____

Name(s): _____
(Please Print)

Capacity (Full Title): _____

Address: _____

_____
(Including Zip Code)

Area Code and Telephone Number: _____

Tax Identification or Social Security Number: _____

(REMEMBER TO COMPLETE ACCOMPANYING CERTIFICATION OF NON-FOREIGN STATUS, IRS FORM W-9 OR APPROPRIATE W-8, AS APPLICABLE)

MEDALLION SIGNATURE GUARANTEE
(ONLY IF REQUIRED—SEE INSTRUCTIONS 1 AND 2)

Authorized Signature of Guarantor: _____

Name of Firm: _____

Address: _____

Area Code and Telephone Number: _____

[Place Seal Here]

BOX A
LOST CERTIFICATE(S)
(See Instruction 5)

SAFECO INSURANCE COMPANY OF AMERICA - LOST SECURITIES AFFIDAVIT FOR COMPUTERSHARE ACCOUNTS LESS THAN $250,000.00 IN MARKET VALUE

By checking the lost certificates box on the cover and signing the bottom of this form, I (we) certify that (a) I (we) am (are) the lawful owner(s) ("Owner") of the shares described on the front of this form; (b) I (we) reside at the address set forth on the front of this form; (c) I (we) am (are) entitled to possession of the lost certificate(s) the "Lost Securities"); (d) the Lost Securities have been lost, mislaid, stolen or destroyed and cannot now be produced; (e) the Lost Securities WERE NOT ENDORSED and neither the Lost Securities nor the Owner(s)' rights therein have, in whole or in part, been cashed, negotiated, sold, transferred, hypothecated, pledged, disposed of, and to my (our) knowledge, no claim of right, like or interest, adverse to the Owner, in or to the Lost Securities, has been made or advanced by any person; (f) I (we) have made or caused to be made a diligent search for the Lost Securities and have been unable to find or recover the Lost Securities; (g) I (we) make this Affidavit of Lost Securities for Computershare Accounts for the purpose of inducing the issuance of new or replacement Securities ("Replacement Securities") (in book-entry form, unless unavailable through the issuer) in lieu of the said Lost Securities, or the distribution of the Owner(s) of proceeds (including liquidation) thereof; and (h) I (we) agree that this Lost Securities Affidavit for Computershare Accounts may be delivered to and made part of the Safeco Insurance Company of America Bond No. 5926165.

The Owner(s) hereby agree(s) in consideration of (1) the issuance of such replacement Securities in lieu of the Lost Securities, or of the distribution to the Owner of the proceeds there from, and (2) the assumption by Safeco Insurance Company of America of liability therefore under its Bond, the OWNER, his/her/its heirs, successors and assigns agree to indemnify, protect and save harmless Safeco Insurance Company of America, Computershare Inc., Computershare Trust Company, N.A. and the issuer, jointly and severally, and their respective agents, representatives, successors, and assigns, from and against all losses, cost and damages (court costs and attorneys fees) to which they may be subject or liable arising out of or relating to the Lost Securities, the issuance of Replacement Securities, the Owner's requested action herein (or any other action arising out of or relating to the Replacement of Lost Securities), or Safeco Insurance Company of America's assumption of liability under its bond described above.

Step 1. CALCULATE LOST CERTIFICATE BOND PREMIUM

LOST CERTIFICATE BOND PREMIUM CALCULATION:	_____ Shares Lost	X	XX Bond premium Per share	=	_____ Total Premium Due (MINIMUM $20.00)	+	$50.00 processing Fee	=	_____ Total Check Amount

Multiply the number of shares lost by the Safeco Insurance Company of America Bond premium noted above to calculate the premium you owe. If you have Lost Securities representing XX or fewer shares, there is a minimum premium of $20.00. The premium is only valid until XX/XX/XXXX. There is also a processing fee of $50.00. PLEASE MAKE YOUR CHECK PAYABLE TO "COMPUTERSHARE" FOR THE BOND PREMIUM AND PROCESSING FEE AND ENCLOSE WITH THIS AFFIDAVIT. If your request is approved, Computershare will forward the Bond premium to Safeco Insurance Company of America. We cannot complete your exchange without a Surety Bond. NOTE: This premium is calculated based upon each lost share, not per each lost certificate.

STEP 2. SIGNATURES OF OWNERS

All registered owners MUST sign below exactly as the name(s) appears on the certificate(s). You must have your signature(s) notarized. If your lost certificate(s) is (are) part of an estate or trust, or are valued at more than $250,000, please contact Computershare for additional instructions.

ANY PERSON WHO, KNOWINGLY AND WITH INTENT TO DEFRAUD ANY INSURANCE COMPANY OR OTHER PERSON, FILES A STATEMENT OF CLAIM CONTAINING ANY MATERIALLY FALSE INFORMATION OR CONCEALS FOR THE PURPOSE OF MISLEADING, INFORMATION CONCERNING ANY FACT MATERIAL THERETO, COMMITS A FRAUDULENT INSURANCE ACT, WHICH IS A CRIME.

Signature of owner _____ Signature of Co-Owner, if any _____

STEP 3. NOTARIZATION

State of _____ County of _____ Notary Signature _____

Printed Name of Notary _____ Sworn to and subscribed to me this (date) _____ (month/day/year)

My commission Expires (date) _____ (month/day/year) (Notary Seal)

The undersigned hereby certifies under penalties of perjury that the statements in Box B below have been examined by the undersigned and to the best of the undersigned's knowledge and belief the statements are true, correct and complete. The undersigned further declares that the undersigned has authority to sign this document on behalf of Seller, if the Seller is a non-individual.

BOX B
FIRPTA AFFIDAVIT
(See Instruction 4)

Section 1445 of the Internal Revenue Code provides that a transferee (buyer) of a U.S. real property interest must withhold tax if the transferor (seller) is a foreign person. For U.S. tax purposes (including Section 1445), the owner of a disregarded entity (which has legal title to a U.S. real property interest under local law) will be the transferor of the property and not the disregarded entity. To inform the transferee (buyer) that withholding of tax is not required upon the disposition of a U.S. real property interest by the transferor (seller) to the transferee (buyer), the person signing this Letter of Transmittal hereby certifies the following under penalties of perjury:

(i) Unless this box is checked, if the transferor (seller) is an individual, the undersigned is not a nonresident alien for purposes of U.S. income taxation; (ii) the undersigned's U.S. social security number is correctly printed in the signature box above; and (iii) the undersigned's home address is correctly printed in the signature box above. ☐

(ii) Unless this box is checked, if the transferor (seller) is a non-individual, the transferor is not a foreign corporation, foreign partnership, foreign estate or foreign trust (as those terms are defined in the Internal Revenue Code and Income Tax Regulations); (ii) the transferor (seller) is not a disregarded entity as defined in Treas. Reg. § 1.1445-2(b)(2)(iii); (iii) the transferor's (seller's) employer identification number is correctly printed in the signature box above; and (iv) the transferor's (seller's) office address is correctly printed in the signature box above. The transferor's jurisdiction of incorporation is _____. ☐

(iii) The person signing this Letter of Transmittal has examined this certification and to the best of the undersigned's knowledge and belief it is true, correct and complete.

(iv) The person signing this Letter of Transmittal understands that this certification may be disclosed to the IRS by the Company and that any false statements contained herein could be punished by fine, imprisonment or both.

(v) If the undersigned is a non-individual, the person signing this Letter of Transmittal declares that the undersigned has authority to sign this document on behalf of transferor (seller).

INSTRUCTIONS

Forming Part of the Terms and Conditions of the Merger Agreement

1. *Signatures on Letter of Transmittal, Instruments of Transfer and Endorsements*. If this Letter of Transmittal is signed by the registered holder(s) of the Shares surrendered hereby, the signatures must correspond with the name(s) as written on the face of the certificates, without alteration, enlargement or any change whatsoever.

If any of the Shares surrendered hereby are registered in the name of two or more holders, all such holders must sign this Letter of Transmittal. If any of the Shares surrendered hereby are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate Letters of Transmittal as there are different registrations of certificates.

If this Letter of Transmittal or any Shares or instrument of transfer is signed by a trustee, executor, administrator, guardian, attorney-in-fact, agent, officer of a corporation or other person acting in a fiduciary or representative capacity, such person should so indicate when signing, and proper evidence satisfactory to Merger Sub of such person's authority to so act must be submitted.

When this Letter of Transmittal is signed by the registered holders of the Shares surrendered hereby, no endorsements of Shares or separate instruments of transfer are required unless payment is to be made to a person other than the registered holders, in which case signatures on such Shares or instruments of transfer must be guaranteed by an eligible financial institution or broker who is a member/participant in a Medallion Program approved by the Securities Transfer Association, Inc. (a "Medallion Signature Guarantor").

Unless this Letter of Transmittal is signed by the holder(s) of record of the Shares surrendered hereby, such Shares must be endorsed or accompanied by appropriate instruments of transfer, and each such endorsement or instrument of transfer must be signed exactly as the name or names of the holder(s) of record appear on the Shares (or as the name of such participant appears on a security position listing as the owner of such Shares); signatures on each such endorsement or instrument of transfer must be guaranteed by an eligible financial institution or a Medallion Signature Guarantor.

2. *Transfer Taxes*. Except as set forth in this Instruction 2, Merger Sub will pay or cause to be paid any transfer taxes with respect to the transfer and sale of Shares to it, or to its order, pursuant to the Merger Agreement. If payment is to be made to any persons other than the holder(s) of record, or if surrendered Shares are registered in the name of any persons other than the persons signing this Letter of Transmittal, the amount of any transfer taxes (whether imposed on the holder of record or such other person) payable on account of the transfer to such other person will be deducted from the payment unless satisfactory evidence of the payment of such taxes or exemption therefrom is submitted.

3. *Requests for Assistance or Additional Copies*. Any questions or requests for assistance or additional copies of the Merger Agreement or this Letter of Transmittal may be directed to Morrow & Co., LLC, toll-free at (800) 662-5200 or (203) 658-9400. A holder may

also contact such holder's broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Merger.

4. *Backup Withholding*.

Payments made in connection with the Merger may be subject to "backup withholding" at a rate of 28%. Backup withholding generally applies if the holder (a) fails to furnish its social security number or other taxpayer identification number ("TIN"), (b) furnishes an incorrect TIN or (c) fails to provide a certified statement, signed under penalties of perjury, that the TIN provided is its correct number and that the holder is not subject to backup withholding. Backup withholding is not an additional tax and may be refunded by the IRS to the extent that it results in an overpayment of tax. Certain persons generally are entitled to exemption from backup withholding, including corporations. Each holder should consult with his or her own tax advisor as to his or her qualification for exemption from backup withholding and the procedure for obtaining such exemption. Surrendering holders may be able to prevent backup withholding by completing the accompanying IRS Form W-9 accompanying this Letter of Transmittal.

To prevent a U.S. federal income withholding tax of 10% in respect of gross proceeds of the Merger Consideration (as described with respect to surrendering non-U.S. Holders below), U.S. Holders (as defined in — "Certain U.S. Federal Income Tax Consequences" of the proxy distributed to holders in connection with the Merger (the "Proxy") must provide the Depositary with a completed Certification of Non-Foreign Status by completing the box entitled "Box B FIRPTA AFFIDAVIT".

Non-U.S. Holders (as defined in — "Certain U.S. Federal Income Tax Consequences" of the Proxy) receiving the Merger Consideration in the Merger could be subject to U.S. federal tax upon the sale of the Shares pursuant to the Merger under the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA") to the extent the Company is a "United States real property holding corporation" ("USRPHC") (defined generally as any U.S. corporation if 50% or more of its assets consist of interests in real property located in the United States). Unless an exception to FIRPTA is applicable, upon the sale of shares of a USRPHC (i) U.S. federal income tax is due in respect of net gains, (ii) U.S. federal withholding tax of 10% is due in respect of gross proceeds, and (iii) certain filing requirements are imposed, in each case, in respect of such sale. Any amounts withheld in respect of gross proceeds that are in excess of the actual income tax due under FIRPTA are refundable by filing for a refund with the IRS. Any gains recognized on the sale or disposition of the shares of a USRPHC are treated as effectively connected with a U.S. trade or business and are subject to U.S. federal income tax at rates applicable to a U.S. Holder, and if the seller is a foreign corporation, may result in the imposition of branch profits tax as well as regular corporate income tax.

The Company believes that it is a USRPHC and that none of the exceptions to FIRPTA may apply to the Merger, and thus intends to withhold FIRPTA taxes equal to 10% of the purchase price that is payable to a non U.S. Holder in the Merger and remit such amount to the IRS.

Each holder (including a holder that is a foreign partnership) should consult such holder's own tax advisor to determine the applicability and consequences of FIRPTA to such holder's sale of Shares pursuant to the Merger.

Surrendering non-U.S. Holders could be subject to 28% backup withholding, as described with respect to surrendering U.S. Holders above. In order to avoid the possibility of backup withholding, each non-U.S. Holder must provide the Depositary with a completed IRS Form W-8BEN, IRS Form W-8BEN-E, or another type of IRS Form W-8 appropriate to the particular non-U.S. Holder. Copies of IRS Form W-8BEN, IRS Form W-8BEN-E and other types of IRS Form W-8 can be found on the IRS website at www.irs.gov/formspubs/index.html.

5. *Lost Certificates*. If you cannot locate some or all of your certificates, read and complete the box entitled "Box A - Lost Certificate(s)" and mark the boxes on the cover with an X corresponding to the certificate numbers you cannot locate. If you do not know the certificate numbers, you must call Computershare for assistance in obtaining the certificate number(s). You must also sign this form in Box A and send a check for the surety bond fee as set forth therein. You must have your signature(s) notarized. All registered holders MUST sign exactly as the name is printed on the certificate(s). If your lost certificate(s) is (are) part of an estate or trust, or are valued at more than $250,000, please contact Computershare for additional instructions by calling (855) 396-2084.

6. *Determinations*. All questions concerning this Letter of Transmittal made by holders of Company Shares will be determined by Merger Sub and/or the Exchange Agent, which shall have the right, in their sole and absolute discretion, to reject any and all Letters of Transmittal which are not in proper form or to waive any irregularities. Merger Sub and the Exchange Agent are under no obligation to inform any holder of Company Shares of any defect in any Letter of Transmittal.

7. *Questions*. If you have any questions regarding this Letter of Transmittal, please contact the Exchange Agent at (855) 396-2084.

EXHIBIT B

ARTICLES OF AMENDMENT

OF THE

AMENDED AND RESTATED CHARTER

OF

W2007 GRACE ACQUISITION I, INC.

Pursuant to the provisions of Section 48-20-101, Section 48-20-103, Section 48-20-104 and Section 48-20-106 of the Tennessee Business Corporations Act

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W2007 Grace Acquisition I, Inc., a Tennessee corporation (hereinafter called the "Corporation"), does hereby certify as follows:

1. The name of the Corporation is W2007 Grace Acquisition I, Inc.

2. The Corporation's Amended and Restated Charter is hereby amended as set forth below:

FIRST: Article 5(b)(6)(C) of the Corporation's Charter is hereby amended and restated to read in its entirety as set forth below:

"(C) The affirmative vote or consent of at least a majority of the votes entitled to be cast by the holders of the outstanding shares of Series B Preferred Stock and the holders of all other classes or series of Preferred Stock entitled to vote on such matters, voting as a single class, will be required to (i) authorize the creation of, the increase in the authorized amount of, or issuance of any shares of any class of Senior Stock or any security convertible into shares of any class of Senior Stock or (ii) amend, alter or repeal any provision of, or add any provision to, the Charter, including any Articles of Amendment, or the Corporation's bylaws, if such action would materially adversely affect the voting powers, rights or preferences of the holders of the Series B Preferred Stock. The amendment of the Charter to authorize, create, or to increase the authorized amount of Junior Stock or any shares of any class of Parity Stock, shall not be deemed to materially adversely affect the voting powers, rights or preferences of the holders of Series B Preferred Stock. No such vote of the holders Series B Preferred Stock as described above shall be required if provision is made to redeem all shares of Series B Preferred Stock at or prior to the time such amendment, alteration or repeal is to take effect, or when the issuance of any such shares or convertible security is to be made, as the case may be."

SECOND: Article 5(c)(7)(C) of the Corporation's Charter is hereby amended and restated to read in its entirety as set forth below:

"(C) The affirmative vote or consent of at least a majority of the votes entitled to be cast by the holders of the outstanding shares of Series C Preferred Stock and the holders of all other classes or series of Preferred Stock entitled to vote on such matters, voting as a single class, will be required to (i) authorize the creation of, the increase in the authorized amount of, or issuance of any shares of any class of Senior Stock or any security convertible into shares of any class of Senior Stock or (ii) amend, alter or repeal any provision of, or add any provision to, the Charter, including the Articles of Amendment, or the Corporation's bylaws, if such action would materially adversely affect the voting powers, rights or preferences of the holders of the Series C Preferred Stock. The amendment of the Charter to authorize, create, or increase the authorized amount of Junior Stock or any shares of any class of Parity Stock, shall not be deemed to materially adversely affect the voting powers, rights or preferences of the holders of Series C Preferred Stock. No such vote of the holders Series C Preferred Stock as described above shall be required if provision is made to redeem all shares of Series C Preferred Stock at or prior to the time such amendment, alteration or repeal is to take effect, or when the issuance of any such shares or convertible security is to be made, as the case may be."

3. The amendments to the Corporations Amended and Restated Charter set forth herein required the approval by the shareholders of the Corporation's Series B Preferred Stock and Series C Preferred Stock and this amendment was duly adopted by such shareholders on the [●] day of [●], 2015, in accordance with the Tennessee Business Corporations Act.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be duly executed this ____ day of [●], 201_.

W2007 Grace Acquisition I, Inc.

By: _____
Name:
Title:

[This page intentionally left blank]

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION

DAVID JOHNSON, PATRICK LYNCH, ROBERTO VERTHELYI and FREDERICK SHEARIN, on behalf of themselves and all others similarly situated, Plaintiffs, vs. W2007 GRACE ACQUISITION I, INC., TODD P. GIANNOBLE, GREGORY FAY, BRIAN NORDAHL, DANIEL E. SMITH, MARK RICKETTS, THE GOLDMAN SACHS GROUP, INC., GOLDMAN SACHS REALTY MANAGEMENT L.P., WHITEHALL PARALLEL GLOBAL REAL ESTATE LIMITED PARTNERSHIP 2007, W2007 FINANCE SUB, LLC, W2007 GRACE I, LLC, and PFD HOLDINGS LLC, Defendants.	No. 2:13-cv-2777 (SHM/DKV)

STIPULATION AND AGREEMENT OF SETTLEMENT

This Stipulation and Agreement of Settlement dated as of October 8, 2014 (the "Stipulation"), is made and entered into by and among (i) David Johnson, Patrick Lynch, Roberto Verthelyi and Frederick Shearin (collectively, "Named Plaintiffs"), for themselves and on behalf of the Classes (as defined below), and (ii) W2007 Grace Acquisition I, Inc. (the "Company" or "W2007 Grace"), Todd P. Giannoble, Gregory Fay, Brian Nordahl, Daniel E. Smith, Mark Ricketts, The Goldman Sachs Group, Inc., Goldman Sachs Realty Management L.P., Whitehall Parallel Global Real Estate Limited Partnership 2007, W2007 Finance Sub, LLC, W2007 Grace I, LLC and PFD Holdings, LLC (collectively, "Defendants"), by and through their

respective counsel, is submitted pursuant to Rule 23 of the Federal Rules of Civil Procedure, and is subject to this Court's approval.

Subject to Court approval, this Stipulation is intended to fully, finally, and forever compromise, resolve, discharge, and settle the Released Claims and the Released Defendants' Claims as against all Released Parties, upon and subject to the terms and conditions stated in this Stipulation.

Except as otherwise defined in this Stipulation, all capitalized words or terms used in this Stipulation shall have the meaning ascribed to those words or terms as set forth in ¶ 1 of this Stipulation, entitled "Definitions."

WHEREAS:

A. On September 13, 2013, the Action was commenced in the Chancery Court of Shelby County, Tennessee, for the Thirtieth Judicial District at Memphis ("State Court") against Defendants, alleging that subsequent to October 25, 2007, Defendants undertook a course of conduct in breach of their contractual, fiduciary and statutory duties to the owners of the Company's 8.75% Series B Cumulative Preferred Stock ("Series B Preferred Stock") and 9.00% Series C Cumulative Preferred Stock ("Series C Preferred Stock" and collectively with the Series B Preferred Stock, "Preferred Stock").

B. On October 2, 2013, Named Plaintiffs filed an Amended Complaint in State Court.

C. On October 4, 2013, Defendants removed the Action to the United States District Court for the Western District of Tennessee (the "Court"). On November 6, 2013, Named Plaintiffs moved to remand the Action to State Court. Defendants filed their opposition to the

motion to remand on December 6, 2013, and Named Plaintiffs filed their reply to the motion to remand on December 20, 2013. The Court denied the motion to remand on July 28, 2014.

D. On January 23, 2014, Defendants moved to dismiss the Action in its entirety, asserting that certain of Named Plaintiffs' claims were untimely, that Defendants did not owe any fiduciary duties to the holders of Preferred Stock, and to the extent fiduciary, contractual or statutory duties existed, Defendants complied fully with the relevant duties. Named Plaintiffs filed their opposition to the Motion to Dismiss on March 21, 2014, and Defendants filed their reply to the Motion to Dismiss on April 25, 2014. The Court has not ruled on Defendants' Motion to Dismiss.

E. On February 7, 2014, the Court issued a Scheduling Order, as amended on June 19, 2014 and July 28, 2014, pursuant to Rule 16(b) of the Federal Rules of Civil Procedure, in which the Court, among other things: (i) set a trial date of September 21, 2015; (ii) required merits discovery to be conducted between February 7, 2014 and November 7, 2014; (iii) required the Parties to engage in discovery related to class certification issues between May 16, 2014 and September 22, 2014; (iv) required that the Parties disclose their expert reports and begin expert discovery by December 23, 2014, to be completed by March 13, 2015; and (v) set a deadline of May 8, 2015 for dispositive motions. Thereafter, the Parties engaged in merits discovery, including, among other things, exchanging requests for production of documents and interrogatories, serving objections and responses to those requests, as well as serving document subpoenas on non-parties, in accordance with the Scheduling Order.

F. On May 16, 2014, Named Plaintiffs moved for class certification pursuant to Rules 23(a) and 23(b) of the Federal Rules of Civil Procedure. In their Class Certification Motion, Named Plaintiffs sought to certify a class of "[a]ll record and beneficial holders of

8.75% Series B Cumulative Preferred Stock and 9.00% Series C Cumulative Preferred Stock of W2007 Grace Acquisition I, Inc. (formerly known as Equity Inns) during the period October 25, 2007 through present, and their heirs, transferees, successors and assigns, excluding Defendants and their affiliates, subsidiaries, family members, legal representatives, heirs, transferees, successors and assigns." In the alternative, Named Plaintiffs proposed the use of classes or subclasses to account separately for (i) Preferred Stockholders who sold and/or held their shares throughout the class period; and (ii) Preferred Stockholders who believed they had sold their shares to PFD Holdings, LLC during the class period without knowledge of the identity of the purchaser. Named Plaintiffs also sought their appointment as class representatives, and the appointment of Chimicles & Tikellis LLP as Class Counsel and Hagler Brucer & Turner, PLLC as Liaison Counsel. Beginning on May 16, 2014, the Parties engaged in class certification discovery, including the exchange of document requests and objections and responses to those requests, as well as taking deposition testimony from each of the Named Plaintiffs.

G. On June 2, 2014, defendant W2007 Grace and WNT Holdings, LLC, an affiliate of defendant Whitehall Parallel Global Real Estate Limited Partnership 2007, announced that certain of their subsidiaries had entered into an agreement to sell 126 hotels for a combined purchase price of $1.925 billion, subject to certain adjustments, to affiliates of American Realty Capital Hospitality Trust, Inc. (the "ARC Transaction").

H. Thereafter, Named Plaintiffs made requests for, and Defendants provided to Named Plaintiffs, information regarding the ARC Transaction. Among other information provided, Defendant W2007 Grace estimated a reasonable fair present value of the proceeds that could be distributed to holders of the Preferred Stock as a result of the ARC Transaction, as

announced, to be approximately $18.50 per share of Preferred Stock. There is no guarantee that the ARC Transaction will be consummated or consummated without modification.

I. During this period, the Parties continued to engage in discovery including the exchange of information and documents directed to the merits of Named Plaintiffs' claims and Defendants' defenses thereto, in addition to the terms and conditions of the ARC Transaction. Furthermore, Named Plaintiffs worked with two consultants to review and analyze all the documents and information produced.

J. Named Plaintiffs, through Class Counsel, held numerous in-person and telephonic settlement discussions and arm's-length negotiations with Defendants' Counsel beginning in early June 2014.

K. On August 20, 2014, after these extensive arm's-length negotiations between Defendants' Counsel and Class Counsel, the Parties entered into a confidential non-binding Memorandum of Understanding, which set forth certain terms of a proposal to settle all claims asserted against Defendants in the Action on behalf of holders of Preferred Stock and sellers of Preferred Stock. The proposed settlement remained contingent upon, among other things, completion of additional reasonable discovery relating to the claims alleged in the Action, the defenses asserted by Defendants, the ARC Transaction, and the terms of the proposed settlement.

L. On August 22, 2014, the Parties notified the Court of the proposed settlement and requested that the Court hold the Action in abeyance until the Parties' submission of this Stipulation and the Court's ruling on the Preliminary Approval Order. The Court agreed to stay all pending deadlines, including deadlines for fact discovery.

M. Subsequently, Named Plaintiffs continued with the additional discovery discussed *supra*, and conducted interviews of key Defendants and their representatives.

N. Named Plaintiffs believe that the claims asserted in the Action have merit. Named Plaintiffs and Class Counsel recognize and acknowledge, however, the expense and length of continued proceedings necessary to prosecute the Action against Defendants through class certification, trial and appeals. Named Plaintiffs and Class Counsel also have taken into account the uncertain outcome and the risk of any litigation, especially in complex actions such as the Action, as well as the difficulties and delays inherent in such litigation. Named Plaintiffs and Class Counsel also are mindful of the inherent problems of proof of, and the possible defenses to, class certification and the claims alleged in the Action. Named Plaintiffs and Class Counsel believe that the Settlement set forth in this Stipulation confers substantial monetary benefits upon the Classes (as discussed below). Based on their investigation and evaluation, Named Plaintiffs and Class Counsel have determined that the Settlement set forth in this Stipulation is in the best interests of Named Plaintiffs and the other members of the Classes.

O. Defendants have denied and continue to deny any fault, liability, or wrongdoing of any kind. Defendants also have denied and continue to deny each and all of the claims and contentions alleged by Named Plaintiffs on behalf of the Classes, including all claims in the Amended Complaint. Defendants have denied and continue to deny, among other things, the allegations that Defendants breached any contractual, fiduciary, or statutory duties to holders of Preferred Stock. Defendants further have denied and continue to deny that any member of the Holder Class or the Seller Class was harmed or suffered any loss as a result of any of the conduct alleged in the Action, including all of the conduct alleged in the Amended Complaint.

P. Defendants are entering into this Settlement to eliminate the burden, expense, uncertainty, distraction and risk of further litigation. This Stipulation, whether or not consummated, any proceedings relating to the Settlement, or any of the terms of the Settlement,

whether or not consummated, shall in no event be construed as, or deemed to be evidence of, an admission or concession on the part of any Defendant with respect to any claim or of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in any defense that Defendants have or could have asserted.

NOW THEREFORE, without any concession by the Named Plaintiffs as to Defendants' liability and the merit of Named Plaintiffs' claims whatsoever, and without any concession on the part of Defendants of any liability or wrongdoing or lack of merit in their defenses whatsoever, it is hereby **STIPULATED AND AGREED**, by and among the Parties to this Stipulation, through their respective attorneys, subject to approval by the Court pursuant to Rule 23(e) of the Federal Rules of Civil Procedure, that, in consideration of the benefits flowing to the Parties from the Settlement, all Released Claims and all Released Defendants' Claims as against all Released Parties shall be unconditionally, fully, finally and forever compromised, settled, released and dismissed with prejudice, and without costs save for the Class Counsel Fees and Expenses Award, to the extent approved by the Court, upon and subject to the following terms and conditions:

DEFINITIONS

1. As used in this Stipulation, the following terms shall have the meanings set forth below:

(a) "Action" means *David Johnson*, *et al.* v. *W2007 Grace Acquisition I Inc.*, *et al.*, No. 2:13-cv-02777, now pending in the United States District Court for the Western District of Tennessee, before The Honorable Samuel H. Mays, Jr.

(b) "Alternative Judgment" means a form of Final judgment that may be entered by the Court but in a form other than the form of Judgment provided for in this Stipulation.

(c) "Amended Complaint" means the amended complaint filed in State Court on October 2, 2013.

(d) "ARC Hospitality" means American Realty Capital Hospitality Trust, Inc.

(e) "ARC Transaction" means the transaction by which certain of the subsidiaries of defendant W2007 Grace Acquisition I, Inc. and WNT Holdings, LLC, an affiliate of Whitehall Parallel Global Real Estate Limited Partnership 2007, entered into an agreement to sell their 126 hotels for a combined purchase price of $1.925 billion, subject to certain adjustments, to affiliates of ARC Hospitality, as announced on June 2, 2014.

(f) "Authorized Claimant" means a member of the Seller Class who or which submits a timely and valid Proof of Claim Form to the Claims Administrator, in accordance with the requirements established by the Court, that is approved for payment from the Net Seller Class Settlement Fund.

(g) "Charter" means the Amended and Restated Charter of W2007 Grace, executed on January 24, 2008.

(h) "Charter Amendment" means the amendment to the Charter in the form attached as Exhibit B to the Merger Agreement.

(i) "Claim" means a completed and signed Proof of Claim Form submitted to the Claims Administrator in accordance with the instructions on the Proof of Claim Form.

(j) "Claimant" means a member of the Seller Class that submits a Proof of Claim Form to the Claims Administrator seeking to share in the proceeds of the Net Seller Class Settlement Fund.

(k) "Claims Administrator" means Angeion Group LLC, the firm tentatively retained by Class Counsel, subject to the Court's approval, to provide all notices approved by the Court to the Class, process Proof of Claim Forms, and administer the Net Seller Class Settlement Fund in accordance with the Stipulation and Plan of Allocation.

(l) "Class Counsel" means the law firm of Chimicles & Tikellis LLP.

(m) "Class Certification Motion" means Named Plaintiffs' motion for class certification, and supporting memoranda, pursuant to Rules 23(a) and 23(b) of the Federal Rules of Civil Procedure, dated May 16, 2014.

(n) "Class Counsel Fees and Expenses Application" means a request from Class Counsel to the Court for an award of fees and expenses.

(o) "Class Counsel Fees and Expenses Award" means such amount as the Court may award to Class Counsel pursuant to ¶ 45 of this Stipulation as reasonable attorneys' fees and payment of costs and expenses incurred by Class Counsel and Liaison Counsel in the prosecution of the Action.

(p) "Classes" means collectively, the Holder Class and the Seller Class.

(q) "Court" means the United States District Court for the Western District of Tennessee.

(r) "Defendants" means W2007 Grace, Todd P. Giannoble, Gregory Fay, Brian Nordahl, Daniel E. Smith, Mark Ricketts, The Goldman Sachs Group, Inc., Goldman

Sachs Realty Management L.P., Whitehall Parallel Global Real Estate Limited Partnership 2007, W2007 Finance Sub, LLC, W2007 Grace I, LLC and PFD Holdings, LLC.

(s) "Defendants' Counsel" means the law firms of Sullivan & Cromwell LLP and Walker, Tipps and Malone PLC.

(t) "*Dent* Action" means *Dent* v. *W2007 Grace Acquisition I, Inc. et al.*, No. Ch-13-1605, which was filed in Tennessee Chancery Court, Shelby County on October 25, 2013.

(u) "Dissenting Shares" means shares of Preferred Stock that are issued and outstanding immediately prior to the Merger Effective Time and which are held by holders of shares of Preferred Stock who are entitled to demand and who have properly demanded and perfected their rights to be paid the "fair value" of such shares in accordance with Title 48, Chapter 23 of the TBCA.

(v) "Dissenting Shares Threshold" means the agreed-upon criteria regarding the percentage of outstanding Preferred Stock, the holders of which have given notice of their intention to assert dissenters' rights before the vote to approve the Merger is taken, which, if exceeded, shall afford Defendants the option to render this Stipulation null and void.

(w) "Effective Date" means the first business date on which, unless otherwise waived by the Parties, all events and conditions specified in ¶ 58 of this Stipulation have been met and have occurred.

(x) "Equity Inns" means Equity Inns, Inc.

(y) "Escrow Account" means an account maintained at Morgan Stanley Wealth Management to hold the Seller Class Settlement Fund, which account, subject to the Court's supervisory authority, shall be under the exclusive control of Class Counsel.

(z) "Escrow Agent" means Angeion Group LLC .

(aa) "Exchange Agent" means Computershare Trust Company, N.A. or another bank or trust company reasonably acceptable to W2007 Grace, which will act as the exchange agent for the payment of the Merger Consideration in accordance with the Merger Agreement.

(bb) "Exchange Fund" means the aggregate Merger Consideration.

(cc) "Excluded Shares" means (i) all of the shares of Preferred Stock owned by W2007 Grace or any direct or indirect wholly-owned subsidiary of W2007 Grace; and (ii) the Dissenting Shares.

(dd) "Final," with respect to any order or judgment by a court, means the latest of: (i) if there is an appeal from the order or judgment, the date of final affirmance on appeal and the expiration of the time for any further judicial review whether by appeal, reconsideration or a petition for a writ of certiorari and, if certiorari is granted, the date of final affirmance following review pursuant to the grant; or (ii) the date of dismissal of any appeal or the dismissal of any proceeding on certiorari to review the order or judgment; or (iii) the expiration of the time for the filing or noticing of any appeal from the order or judgment. However, any appeal or proceeding seeking subsequent judicial review pertaining solely to the Plan of Allocation of the Net Seller Class Settlement Fund (or other such plan of allocation as the Court may approve), or the Class Counsel Fees and Expenses Award, shall not in any way delay or affect the time set forth above for the Judgment or Alternative Judgment to become Final, or otherwise preclude the Judgment or Alternative Judgment from becoming Final.

(ee) "Final Approval Hearing" means the hearing to be held by the Court to determine whether the proposed Settlement is fair, reasonable and adequate and should be approved pursuant to Rule 23(e) of the Federal Rules of Civil Procedure.

(ff) "Final Approval Order" means the proposed order finally approving the proposed Settlement, which, subject to the approval of the Court, shall be substantially in the form attached to this Stipulation as Exhibit 1.

(gg) "Former Holder" means each Person who immediately prior to the Merger Effective Time held of record shares of Preferred Stock.

(hh) "Governmental Entity" means any domestic or foreign governmental or regulatory authority, agency, commission, body, court or other legislative, executive or judicial governmental entity.

(ii) "Holder Class" means any and all Persons who, as of August 22, 2014 and through the Merger Effective Time, hold W2007 Grace Series B Preferred Stock or Series C Preferred Stock, excluding: Defendants and their affiliates; Holder Class Opt-Outs; and, holders of Dissenting Shares.

(jj) "Holder Class Opt-Outs" means those persons and entities (if any) who timely and validly request exclusion from the Holder Class.

(kk) "Holder Class Opt-Out Threshold" means the agreed-upon criteria regarding requests for exclusion from the Holder Class, which, if exceeded, shall afford Defendants the option to render this Stipulation null and void.

(ll) "Judgment" means the proposed judgment, substantially in the form attached to this Stipulation as Exhibit 2, to be entered by the Court.

(mm) "Law" means any federal, state, local or foreign law, statute, ordinance, rule, regulation, judgment, order, injunction, decree, arbitration award, agency requirement, license or permit of any Governmental Entity.

(nn) "Liaison Counsel" means the law firm of Hagler Bruce & Turner, PLLC.

(oo) "Merger" means the merger reflected in the Merger Agreement, whereby W2007 Grace will be merged with and into Merger Sub and all Series B Preferred Stock and Series C Preferred Stock, except for the Excluded Shares, shall be converted into the right to receive $26.00 per share.

(pp) "Merger Agreement" means the form of Agreement and Plan of Merger, attached to this Stipulation as Exhibit 3, by and among W2007 Grace, Parent, Merger Sub, and the Whitehall Parties.

(qq) "Merger Consideration" means the aggregate cash consideration payable pursuant to Section 2.1(c) and Section 2.1(d) of the Merger Agreement.

(rr) "Merger Effective Time" means the time when the Tennessee Articles of Merger have been duly filed with the Secretary of State of the State of Tennessee or at such later time as may be specified in the Tennessee Articles of Merger.

(ss) "Merger Sub" means W2007 Grace Acquisition II, Inc., a Tennessee corporation and wholly owned subsidiary of Parent.

(tt) "Motion to Dismiss" means Defendants' Motion to Dismiss the Amended Complaint, and supporting memoranda, pursuant to Rules 9(b) and 12(b)(6) of the Federal Rules of Civil Procedure, dated January 23, 2014.

(uu) "Named Plaintiffs" means David Johnson, Patrick Lynch, Roberto Verthelyi and Frederick Shearin.

(vv) "Net Seller Class Settlement Fund" means the balance remaining in the Seller Class Settlement Fund after deduction of: (i) Seller Class Notice and Administration Expenses; (ii) any award of Seller Class-related litigation expenses not to exceed $150,000; (iii) payments for any Taxes and Tax Expenses (defined in ¶ 21); and (iv) costs for escrow services, if any.

(ww) "Notice" means the Notice of (i) Pendency of Class Action and Proposed Settlement; (ii) Final Approval Hearing; and (iii) Class Counsel Fees and Expenses Application, which will be sent to the Classes and, subject to approval of the Court, shall be substantially in the form attached to this Stipulation as Exhibit 4.

(xx) "Notice Plan" means the procedures for publication, mailing and/or distribution of the Notice, Summary Notice, and Proof of Claim Form, which, subject to approval of the Court, shall be substantially in the form provided in paragraphs 24 through 26 of this Stipulation.

(yy) "Parent" means W2007 Grace II, LLC, a Tennessee limited liability company, which is the parent of Merger Sub.

(zz) "Parties" means Named Plaintiffs and Defendants.

(aaa) "Person" and "Persons" means any individual, corporation (including all divisions and subsidiaries), general or limited partnership, association, joint stock company, joint venture, limited liability company, professional corporation, estate, legal representative, trust, unincorporated association, government or any political subdivision or agency thereof, and any other business or legal entity.

(bbb) "Plan of Allocation" means the proposed plan of allocation of the Net Seller Class Settlement Fund for the Court's approval, attached to this Stipulation as Exhibit 5.

(ccc) "Preferred Stock" means, collectively, the Series B Preferred Stock and Series C Preferred Stock issued by W2007 Grace.

(ddd) "Preliminary Approval Order" means the proposed order preliminarily approving the proposed Settlement and directing notice to the Classes of the pendency of the Action and of the Settlement, which, subject to the approval of the Court, shall be substantially in the form attached to this Stipulation as Exhibit 6.

(eee) "Proof of Claim Form" means the Proof of Claim and Release form for submitting a Claim, which shall be substantially in the form made part of the Notice (Exhibit 4 to this Stipulation), that a member of the Seller Class must complete and timely submit for that member of the Seller Class to be eligible to share in the distribution of the Net Seller Class Settlement Fund. No Proof of Claim Form shall be required from any member of the Holder Class.

(fff) "Proxy Statement" means the notice of shareholder meeting and proxy statement relating to the Merger, substantially in the form attached to this Stipulation as Exhibit 7, subject to amendment as may be required.

(ggg) "Qualified Settlement Fund" means a Qualified Settlement Fund as defined by Treas. Reg. § 1.468B-1.

(hhh) "Released Claims" means any and all claims (including any and all Unknown Claims), demands, actions, causes of action, obligations, debts, judgments and liabilities of any kind, nature and description, whether direct or derivative, whether at law or in equity, upon any legal or equitable theory, whether contractual, common law or statutory, whether arising under federal, state, common, or foreign law (including, without limitation, claims under the federal securities laws and regulations, claims for breach of fiduciary duty,

breach of contract or corporate charter, or the misstatement of or the failure to disclose material facts), whether secured or unsecured, contingent or absolute, choate or inchoate, liquidated or unliquidated, perfected or unperfected, in any forum, including in arbitration or similar proceedings, including class, derivative, individual or other claims, that previously existed or that currently exist as of the date of the approval of the Settlement by the Court or that may arise in the future against the Released Defendant Parties, (i) related to the purchase, sale, holding or investment in, or the terms of, the securities of W2007 Grace or its predecessors (including Equity Inns), including, without limitation, the Preferred Stock; (ii) asserted, or that could have been asserted in the Action or arising out of or relating to the facts, matters and transactions alleged in the Action, including, without limitation, claims for breach of contract, claims for breach of fiduciary duties, and claims for violations of the TBCA; and/or (iii) arising out of the Merger that is a component of the Settlement, including, without limitation, claims related to the sufficiency of the merger process and the Proxy Statement, and claims for breach of the fiduciary duties; *provided* that the Released Claims do not include claims based upon the interpretation or enforcement of the terms of the Settlement.

(iii) "Released Defendants' Claims" means any and all claims (including any and all Unknown Claims), demands, actions, causes of action, obligations, debts, judgments and liabilities of any kind, nature and description, whether direct or derivative, whether at law or in equity, upon any legal or equitable theory, whether contractual, common law or statutory, whether arising under federal, state, common, or foreign law, whether secured or unsecured, contingent or absolute, choate or inchoate, liquidated or unliquidated, perfected or unperfected, in any forum, including in arbitration or similar proceedings, that Released Defendant Parties could assert against any of the Releasing Plaintiffs that arise from, relate to or are in connection

with the commencement, prosecution, settlement or resolution of the Action; *provided* that the Released Defendants' Claims do not include claims based upon the interpretation or enforcement of the terms of the Settlement.

(jjj) "Released Defendant Parties" means Defendants, their parents, subsidiaries, affiliates, predecessors (including Equity Inns), successors, assigns, and each of their respective past or present directors, officers, partners, limited partners, owners, beneficial owners, investors, employees, agents, attorneys, control persons, representatives, and their predecessors, successors, and assigns.

(kkk) "Released Parties" means, collectively, the Released Defendant Parties and the Releasing Plaintiffs.

(lll) "Releasing Plaintiffs" means Named Plaintiffs, each and every member of the Classes, Class Counsel, and Liaison Counsel, and each and all of their respective predecessors, successors, representatives, agents, attorneys, heirs, executors, trustees, personal representatives, estates, administrators and assigns; and any other Person who has the right, ability, standing or capacity to assert, prosecute or maintain any of the Released Claims; *provided however*, that Releasing Plaintiffs shall not include any Person who or which properly excludes himself, herself or itself by filing a valid and timely request for exclusion.

(mmm)"Scheduling Order" means the scheduling order issued by the Court in this Action on February 7, 2014 and amended on June 19, 2014 and July 28, 2014, pursuant to Rule 16(b) of the Federal Rules of Civil Procedure.

(nnn) "Seller Class" means all Persons who sold some or all of their Preferred Stock between October 25, 2007 and October 8, 2014, inclusive, and suffered a loss, excluding:

Defendants and their affiliates; persons who sold shares to Defendant PFD Holdings, LLC; and Seller Class Opt-Outs.

(ooo) "Seller Class Distribution Order" means an order of the Court permitting the Claims Administrator to distribute the Net Class Seller Settlement Fund to Authorized Claimants.

(ppp) "Seller Class Notice and Administration Expenses" means the costs, fees and expenses incurred in connection with providing Notice to the Seller Class and administering and distributing the Seller Class Settlement Fund to the members of the Seller Class, including fees and expenses.

(qqq) "Seller Class Opt-Outs" means those persons and entities (if any) who timely and validly request exclusion from the Seller Class.

(rrr) "Seller Class Opt-Out Threshold" means the agreed-upon criteria regarding requests for exclusion from the Seller Class, which, if exceeded, shall afford Defendants the option to render this Stipulation null and void.

(sss) "Seller Class Settlement Fund" means the total principal amount of six million dollars ($6 million), in cash, for the benefit of the Seller Class.

(ttt) "Series B Preferred Stock" means 8.75% Series B Cumulative Preferred Stock issued by W2007 Grace.

(uuu) "Series C Preferred Stock" means 9.00% Series C Cumulative Preferred Stock issued by W2007 Grace.

(vvv) "Settlement" means the compromise and settlement among the Parties contemplated by, and provided for in, this Stipulation.

(www) "Settlement Amount" means the total of (i) the Merger Consideration, (ii) the Seller Class Settlement Fund, and (iii) the Class Counsel Fees and Expenses Award.

(xxx) "Shareholders' Meeting" means the shareholder meeting called for the purpose of voting on the Merger Agreement and the Charter Amendment.

(yyy) "State Court" means the Chancery Court of Shelby County, Tennessee, for the Thirtieth Judicial District at Memphis.

(zzz) "Stipulation" means this Stipulation and Agreement of Settlement.

(aaaa) "Summary Notice" means the summary of the Notice which, subject to the approval of the Court, shall be substantially in the form attached to this Stipulation as Exhibit 8 and published as set forth in the Preliminary Approval Order.

(bbbb) "Taxes" has the meaning set forth in paragraph 21 herein.

(cccc) "TBCA" means the Tennessee Business Corporation Act.

(dddd) "Termination Notice" means the written provision of notice by either Defendants or Named Plaintiffs of their intent to terminate the Settlement.

(eeee) "Unknown Claims" means any and all Released Claims that the Named Plaintiffs or any other member of the Holder Class or Seller Class does not know or suspect to exist in his, her or its favor at the time of the release of the Released Defendant Parties, and any Released Defendants' Claims that any Defendant or any of the other Released Defendant Parties does not know or suspect to exist in his, her or its favor at the time of the release of the Releasing Plaintiffs, which if known by him, her or it might have affected his, her or its decision(s) with respect to the Settlement. With respect to any and all Released Claims and Released Defendants' Claims, the Parties stipulate and agree that, upon the Effective Date, each of the Named Plaintiffs and each of the Defendants shall expressly waive, and each other

member of the Classes and each of the other Released Defendant Parties will be deemed to have, and by operation of the Judgment or any Alternative Judgment will have, expressly waived and relinquished any and all provisions, rights and benefits conferred by any law of any state or territory of the United States or any other jurisdiction, or principle of common law that is similar, comparable, or equivalent to Cal. Civ. Code § 1542, which provides:

> **A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**

Named Plaintiffs, any other member of the Holder Class or Seller Class, any Defendant or any other of the Released Defendant Parties may hereafter discover facts in addition to or different from those that he, she, or it now knows or believes to be true with respect to the subject matter of, respectively, the Released Claims and the Released Defendants' Claims, but Named Plaintiffs and Defendants shall expressly, fully, finally and forever settle and release, and each other member of the Classes and each of the other Released Defendant Parties shall be deemed to have settled and released, and upon the Effective Date and by operation of the Judgment shall have settled and released, fully, finally, and forever, any and all Released Claims and Released Defendants' Claims as applicable, without regard to the existence or subsequent discovery of such different or additional facts. Named Plaintiffs and Defendants acknowledge, and each other member of the Holder Class and Seller Class and each of the other Released Defendant Parties by operation of law shall be deemed to have acknowledged, that the inclusion of "Unknown Claims" in the definition of Released Claims and Released Defendants' Claims was separately bargained for and was a key and material element of the Settlement.

(ffff) "W2007 Grace" means W2007 Grace Acquisition I, Inc.

(gggg) "Whitehall Parties" means PFD Holdings, LLC, Whitehall Parallel Global Real Estate Limited Partnership 2007, and W2007 Finance Sub, LLC.

SCOPE AND EFFECT OF SETTLEMENT

2. The obligations incurred pursuant to this Stipulation are, subject to the approval by the Court and such approval becoming Final, in full and final disposition of the Action with respect to the Released Parties and any and all Released Claims and Released Defendants' Claims; *provided*, *however*, that the effectiveness of the Settlement shall not be contingent upon the Court's approval of the Class Counsel Fees and Expenses Application.

3. For purposes of this Settlement only, the Parties agree to the certification of the Action as a class action, pursuant to Federal Rules of Civil Procedure 23(a) and 23(b)(3), on behalf of the Holder Class and Seller Class as defined in ¶¶ 1(ii) and 1(nnn) of this Stipulation, and to the appointment of (i) the Named Plaintiffs as class representatives for the Classes and (ii) Chimicles & Tikellis LLP as Class Counsel for the Classes.

4. By operation of the Judgment, as of the Effective Date, and subject to ¶¶ 1(hhh), Releasing Plaintiffs shall be deemed to have fully, finally and forever waived, released, discharged and dismissed each and every one of the Released Claims against each and every one of the Released Defendant Parties, with prejudice and on the merits, without costs to any Party save for the Class Counsel Fees and Expenses Award, to the extent approved by the Court, and shall forever be barred and enjoined from commencing, instituting, prosecuting or maintaining any of the Released Claims against any of the Released Defendant Parties.

5. By operation of the Judgment, as of the Effective Date, and subject to ¶ 1(iii) , each of the Released Defendant Parties shall be deemed to have fully, finally and forever waived, released, discharged and dismissed each and every one of the Released Defendants' Claims, as

against each and every one of the Releasing Plaintiffs and shall forever be barred and enjoined from commencing, instituting, prosecuting or maintaining any of the Released Defendants' Claims against any of the Releasing Plaintiffs.

THE HOLDER CLASS SETTLEMENT CONSIDERATION

6. In full and complete settlement of the claims asserted by members of the Holder Class in the Action, and in consideration of the releases specified in ¶¶ 4-5 of this Stipulation, Defendant W2007 Grace shall present the Merger Agreement, attached hereto as Exhibit 3, to its board of directors, the board's adoption of which is a condition to the Settlement, and shall submit the Merger Agreement for approval by the holders of Preferred Stock by the requisite number of shares required under the TBCA, which is a majority of each of the Series B Preferred Stock and Series C Preferred Stock, each voting as a separate class. Subject to the satisfaction or waiver by W2007 Grace of the conditions precedent to its obligations set forth in the Merger Agreement, within ten (10) business days after the Effective Date, W2007 Grace will be merged with and into Merger Sub, and each share of the Preferred Stock (except for the Excluded Shares) shall be converted into, and shall be canceled in exchange for, the right to receive $26.00 in cash, without interest and less any applicable withholding taxes, in accordance with the Merger Agreement.

7. In addition, to the extent that there remains any balance in the Net Seller Class Settlement Fund after distribution to the Seller Class, that balance will be distributed pro rata to the Holder Class, as set forth in the Plan of Allocation and ¶ 33.

THE MERGER PROCESS

8. Defendant W2007 Grace shall cause to be mailed to all holders of record of Preferred Stock entitled to vote at the Shareholders' Meeting a Proxy Statement relating to the

Merger in substantially the form attached as Exhibit 7 within fifteen (15) business days following the date of the Preliminary Approval Order, which Proxy Statement will give notice of the Shareholder Meeting; provided that W2007 Grace shall have reasonable time to amend the Proxy Statement should amendment be necessary. Within sixty (60) calendar days of the mailing of the Proxy Statement, W2007 Grace shall, in accordance with applicable Law and the Charter and W2007 Grace bylaws, convene and hold the Shareholders' Meeting for the holders of Preferred Stock to vote on the Merger and the Charter Amendment.

9. Any and all expenses, costs, fees, checks, check mailing and reissues related to the Merger (other than taxes related to the sale of Preferred Stock pursuant thereto) shall be paid by Defendant W2007 Grace on a non-recourse basis. The Releasing Plaintiffs shall have no responsibility or liability with respect to the Merger, Merger Agreement and proxy solicitation.

10. It is PFD Holdings, LLC's intention that, if the Merger is approved and the Effective Date has occurred, PFD Holdings, LLC will elect to cancel the shares of Preferred Stock it owns in lieu of accepting the merger consideration of $26.00 per share of Preferred Stock by contributing such shares of Preferred Stock to a newly formed subsidiary, which subsidiary will then be contributed to W2007 Grace immediately prior to the Merger Effective Time in exchange for newly issued shares of W2007 Grace common stock. If such election is made, such shares of Preferred Stock shall, immediately prior to the Merger Effective Time, be cancelled without payment of any consideration to PFD Holdings, LLC.

11. Merger Consideration shall be distributed pursuant to and as set forth in the Merger Agreement. Merger Sub, W2007 Grace or Exchange Agent, as applicable, shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to the Merger Agreement and this Stipulation to any holder of Preferred Stock such amounts as it is required to

deduct and withhold with respect to the making of such payment under the Internal Revenue Code of 1986, as amended, the Treasury regulations promulgated thereunder, or any provision of state, local or foreign tax Law and shall, to the extent so withheld, promptly pay or cause to be paid any such amounts to the appropriate Governmental Entity as required by applicable Law. To the extent that amounts are withheld, such withheld amounts shall be treated for all purposes of the Merger Agreement and this Stipulation as having been paid to the holder of Preferred Stock in respect of which such deduction and withholding was made.

12. Within forty five (45) days of the Merger Effective Time and thereafter within twenty (20) days of each calendar month-end, Merger Sub or Exchange Agent shall provide a report to Class Counsel of the identity of the members of the Holder Class (including the number of shares of Preferred Stock) to which the Merger Consideration has been distributed. Absent agreement by the Parties, Class Counsel may timely apply to the Court requesting an extension of the time provided for in Section 2.2(e) of the Merger Agreement by which the Exchange Agent will terminate the Exchange Fund.

13. The Merger shall not be contingent on the terms or consummation of the ARC Transaction. The Merger shall be contingent upon the occurrence of the Effective Date.

THE SELLER CLASS SETTLEMENT CONSIDERATION

14. In full and complete settlement of the claims asserted in the Action against Defendants, and in consideration of the releases specified in ¶¶ 4-5 of this Stipulation, W2007 Grace shall deposit, or cause to be deposited, the Seller Class Settlement Fund into the Escrow Account as follows: (i) within ten (10) business days after the later of (a) the Court's entry of the Preliminary Approval Order of the Settlement, or (b) receipt by Defendants' Counsel from Class Counsel of full and complete wiring or other instructions necessary for such payment and an

executed W-9 for the Seller Class Settlement Fund, the sum of $250,000; and (ii) within ten (10) business days after the Effective Date, the sum of $5,750,000, less 50% of the costs of the Notice and Summary Notice pursuant to ¶ 51 of this Stipulation. The Escrow Account shall be controlled by Class Counsel and subject to the Court's oversight for the benefit of the Seller Class.

15. The Net Seller Class Settlement Fund shall be distributed to the Seller Class members pursuant to the Plan of Allocation proposed for the Court's approval as Exhibit 5. The Released Defendant Parties and Defendants' Counsel shall have no responsibility for administering the Plan of Allocation or liability with respect to the allocation of the Seller Class Settlement Fund.

16. With the sole exception of W2007 Grace's obligation to cause the Seller Class Settlement Fund to be deposited into the Escrow Account as provided in ¶ 14 of this Stipulation and the Whitehall Parties' obligation as set forth in ¶ 69, the Released Defendant Parties and Defendants' Counsel shall have no responsibility or liability with respect to the Escrow Account or the monies maintained in the Escrow Account, including, without limitation, any responsibility or liability related to any fees, Taxes and Tax Expenses, investment decisions, maintenance, supervision or distributions of any portion of the Seller Class Settlement Fund or the Net Seller Class Settlement Fund.

USE AND TAX TREATMENT OF THE SELLER CLASS SETTLEMENT FUND

17. The Seller Class Settlement Fund and any and all interest earned on any monies held in the Escrow Account shall first be applied to pay the following in the manner and in accordance with the provisions contained in this Stipulation and in the Final Judgment or Final Alternative Judgment: (i) Seller Class Notice and Administration Expenses; (ii) any award of

Seller Class-related litigation expenses not to exceed $150,000; (iii) payments for any Taxes and Tax Expenses (defined in ¶ 21); and (iv) costs for escrow services, if any. The balance remaining in the Seller Class Settlement Fund (the "Net Seller Class Settlement Fund") shall be distributed to Authorized Claimants after the Effective Date as provided below.

18. The Net Seller Class Settlement Fund shall be distributed to Authorized Claimants as provided in the Plan of Allocation, attached as Exhibit 5 to this Stipulation. The Net Seller Class Settlement Fund shall remain in the Escrow Account until the Effective Date. All funds held in the Escrow Account shall be deemed within the custody of the Court and remain subject to the jurisdiction of the Court until such time as the funds are distributed pursuant to the terms of this Stipulation, pursuant to the Seller Class Distribution Order, and/or further order of the Court. The Released Defendant Parties and Defendants' Counsel shall have no responsibility for, interest in or liability whatsoever with respect to, the actions of the Escrow Agent, or any transaction executed by the Escrow Agent. The Released Parties shall not be responsible or liable for any risk associated with or related to the investment of the Seller Class Settlement Fund.

19. The Parties agree that the Seller Class Settlement Fund is intended to be a Qualified Settlement Fund within the meaning of Treas. Reg. §§ 1.468B-1. All necessary steps to enable the Escrow Account to be a Qualified Settlement Fund shall be taken by Class Counsel, including the timely filing by Class Counsel, the Claims Administrator and/or their agents of all elections and statements, and all federal, state and local tax returns required pursuant to Treas. Reg. §§ 1.468B-0 through 1.468B-5 or pursuant to any other relevant statutes, regulations or rulings now or hereafter enacted or promulgated. In no event shall the Released Defendant Parties and Defendants' Counsel have any responsibility whatsoever for filing elections or other

required statements or tax returns, or for paying or withholding the costs associated therewith, or for paying any taxes due or the expenses of notice or administration of the Escrow Account.

20. For the purpose of § 1.468B of the Code and the Treasury regulations promulgated thereunder, the Claims Administrator shall be designated as the "administrator" of the Seller Class Settlement Fund. The Claims Administrator shall timely and properly file all informational and other tax returns necessary or advisable with respect to the Seller Class Settlement Fund (including, without limitation, the returns described in Treas. Reg. § 1.468B-2(k)). Such returns shall be consistent with this ¶ 20 and in all events shall reflect that all Taxes, as defined in ¶ 21 hereof (including any estimated Taxes, interest, or penalties) on the income earned by the Seller Class Settlement Fund, shall be paid out of the Seller Class Settlement Fund.

21. All: (i) Taxes (including any estimated Taxes, interest, or penalties) arising with respect to the income earned by the Seller Class Settlement Fund ("Taxes"); and (ii) expenses and costs incurred in connection with the operation and implementation of this ¶ 21 for the Seller Class Settlement Fund (including, without limitation, expenses of tax attorneys and/or accountants and mailing and distribution costs and expenses relating to filing (or failing to file) the returns described in this ¶ 21) ("Tax Expenses"), shall be paid out of the Seller Class Settlement Fund.

22. Taxes and Tax Expenses shall be treated as, and considered to be, a cost of administration of the Seller Class Settlement Fund and shall be timely paid at the direction of the Claims Administrator out of the Seller Class Settlement Fund without prior order from the Court, and the Claims Administrator shall be obligated (notwithstanding anything herein to the contrary) to withhold from distribution to Authorized Claimants any funds necessary to pay such amount, including the establishment of adequate reserves for any Taxes and Tax Expenses (as

well as any amounts that may be required to be withheld under Treas. Reg. § 1.468B-2(1)(2)). In all events, the Released Defendant Parties and Defendants' Counsel shall have no liability or responsibility whatsoever for the Taxes, Tax Expenses, or the filing of any tax returns or other documents with the Internal Revenue Service or any other state or local taxing authority.

TERMS OF THE PRELIMINARY APPROVAL ORDER AND NOTICE

23. Concurrently with their application for preliminary approval of the Settlement contemplated by this Stipulation and promptly after execution of this Stipulation, Class Counsel shall apply to the Court for entry of the Preliminary Approval Order, which shall be substantially in the form attached to this Stipulation as Exhibit 6, and which shall provide for, *inter alia*, (i) the preliminary approval of the Settlement; (ii) approval and conditional certification of the Classes for Settlement purposes; (iii) approval of the form of the Notice and the Notice Plan (¶¶ 24-26 herein) as fully satisfying the requirements of the applicable law and rules; and (iv) the setting of a date for the Final Approval Hearing.

24. Within fifteen (15) business days after the entry of the Preliminary Approval Order, the Claims Administrator shall cause a copy of the Notice and Proof of Claim Form to be mailed by first-class mail to all members of the Classes who can be identified with reasonable effort, including through transfer and ownership records (consisting of the names and current addresses of current and former holders of Preferred Stock) provided by Defendant W2007 Grace and to be made available to Class Counsel and the Claims Administrator for the purpose of identifying and giving notice to the Classes. With respect to the Holder Class, Notice will be mailed to holders of record of Preferred Stock as of August 22, 2014.

25. In addition, the Claims Administrator shall use reasonable efforts to give notice to nominee owners such as brokerage firms and other persons or entities who held Preferred Stock

as record owners but not as beneficial owners. Such nominee owners shall be requested to send the Notice and Proof of Claim Form to all such beneficial owners within ten (10) days after receipt thereof, or to send a list of the names and addresses of such beneficial owners to the Claims Administrator within ten (10) days of receipt thereof, in which event the Claims Administrator shall promptly mail the Notice and Proof of Claim Form to such beneficial owners. Such nominees may seek reimbursement of their reasonable expenses in providing notice to beneficial owners who are Class Members, which would not have been incurred except for the sending of such notice, by providing the Claims Administrator with proper documentation supporting the expenses for which reimbursement is sought. Such properly documented expenses incurred by nominees in compliance with the terms of this Order shall be paid from the Seller Class Settlement Fund, subject to further order of this Court with respect to any dispute concerning such compensation.

26. Furthermore, no later than twenty (20) business days after the entry of the Preliminary Approval Order, the Claims Administrator shall cause the Summary Notice to be published once in the national edition of *Investor's Business Daily,* over the *PR Newswire*; and, on the *Wall Street Journal* Online edition.

27. Prior to the Final Approval Hearing, Class Counsel shall serve on Defendants' Counsel and file with the Court proof, by affidavit or declaration, of such mailing and publishing.

DISTRIBUTION AND ADMINISTRATION OF SELLER CLASS SETTLEMENT FUND

28. Members of the Seller Class must submit Proof of Claim Forms by the date set by the Court in the Preliminary Approval Order and specified in the Notice, unless such deadline is extended by order of the Court. Any member of the Seller Class who or which fails to submit a

Proof of Claim Form by such date shall be barred from receiving any distribution from the Net Seller Class Settlement Fund or payment pursuant to this Stipulation (unless late-filed Proof of Claim Forms are accepted by an order of the Court), but shall in all other respects be bound by any and all terms of this Stipulation and the Settlement, including the terms of the Judgment and the releases provided for in this Stipulation, and shall be permanently barred and enjoined from bringing any action, claim or other proceeding of any kind against any Released Party concerning any of the Released Claims or Released Defendants' Claims. A Proof of Claim Form shall be deemed to be submitted when mailed, if received with a postmark indicated on the envelope and if mailed by first-class or overnight U.S. Mail and addressed in accordance with the instructions on the Proof of Claim Form.

29. The Claims Administrator shall determine each Authorized Claimant's share of the Net Seller Class Settlement Fund based upon each Authorized Claimant's Recognized Loss, as defined in the Plan of Allocation, prepared by Named Plaintiffs, which is included in the Notice and as Exhibit 5 to this Stipulation, or in such other plan of allocation as the Court may approve. Defendants have had the opportunity to review but take no position with respect to the Plan of Allocation. The Plan of Allocation is a matter separate and apart from the proposed Settlement between Named Plaintiffs and Defendants, and any decision by the Court concerning the Plan of Allocation shall not affect the validity or finality of the proposed Settlement. The Plan of Allocation is not a necessary term of this Stipulation, and it is not a condition of this Stipulation that any particular plan of allocation be approved by the Court. Named Plaintiffs and Class Counsel may not cancel or terminate the Stipulation or the Settlement in accordance with ¶ 59 of this Stipulation or otherwise based on the Court's or any appellate court's ruling with respect to the Plan of Allocation or any plan of allocation in the Action.

30. Class Counsel shall apply to the Court for a Seller Class Distribution Order, on notice to Defendants' Counsel, approving the Claims Administrator's administrative determinations concerning the acceptance and rejection of the Claims made by members of the Seller Class and approving any fees and expenses not previously paid, including the fees and expenses of the Claims Administrator, and, if the Effective Date has occurred, directing the payment of the Net Seller Class Settlement Fund to Authorized Claimants.

31. The Claims Administrator shall administer the disbursement of the Net Seller Class Settlement Fund under Class Counsel's supervision and subject to the jurisdiction of the Court. Except as stated in ¶ 14 of this Stipulation, the Released Defendant Parties and Defendants' Counsel shall have no responsibility for, interest in, or liability whatsoever with respect to, the administration of the Seller Class Settlement Fund or the actions or decisions of the Claims Administrator, and shall have no liability to the Seller Class in connection with such administration; *provided*, *however*, that W2007 Grace agrees to cooperate reasonably with Class Counsel in identifying the names and addresses of potential members of the Seller Class.

32. If there is any balance in the Net Seller Class Settlement Fund after one hundred and twenty (120) calendar days from the date of distribution of the Net Seller Class Settlement Fund (whether by reason of tax refunds, uncashed checks, or otherwise), then, after the Claims Administrator has made reasonable and diligent efforts to have Authorized Claimants cash their distributions, any balance remaining shall be re-distributed among Authorized Claimants in an equitable and economic manner, if feasible, until all Authorized Claimants have recovered 100% of their Recognized Losses, as determined under the Plan of Allocation (the "Subsequent Distribution").

33. If, after the Subsequent Distribution and the payment in full of all Seller Class Claims Administration Fees and Expenses has occurred, there remains any residual balance in the Net Seller Class Settlement Fund (whether by reason of tax refunds, uncashed checks, or otherwise) (the "Residual"), then the Residual shall be distributed by the Claims Administrator *pro rata* to the Holder Class, as set forth in the Plan of Allocation, subject to there being a sufficient Residual to effectuate such distribution ("Residual Distribution to Holder Class"). No Proof of Claim will be required from any member of the Holder Class to participate in the Residual Distribution to Holder Class and to receive, if any, a *pro rata* allocation of the Residual. If there is insufficient Residual to do a Residual Distribution to Holder Class, the Residual will be distributed in accordance with ¶ 34.

34. If, after ninety (90) calendar days from the date of the Residual Distribution to Holder Class, any balance remains in the Net Seller Class Settlement Fund, such balance shall be disbursed in accordance with Class Counsel's suggestions pursuant to *cy pres* principles, and as approved by the Court. Defendants retain no interest in or right to any such amount remaining in the Seller Class Settlement Fund.

35. Each Authorized Claimant shall be deemed to have submitted to the jurisdiction of the Court with respect to the Claim, and the Claim shall be subject to investigation and discovery under the Federal Rules, *provided*, *however*, that such investigation and discovery shall be limited to the Claimant's status as a member of the Seller Class and the validity and amount of the Claim. No discovery shall be allowed as to the merits of the Action or of the Settlement in connection with the processing of a Claim.

36. Payment pursuant to the Class Distribution Order shall be deemed final and conclusive against the Seller Class. All members of the Seller Class whose Claims are not

approved by the Court shall be barred from participating in distributions from the Net Seller Class Settlement Fund, but otherwise shall be bound by all of the terms of this Stipulation and the Settlement, including the terms of the Judgment to be entered in the Action and the release provided for in ¶¶ 4-5 of this Stipulation, and shall be barred from bringing any action against the Released Defendant Parties concerning the Released Claims.

37. All proceedings with respect to the administration, processing and determination of Claims described by ¶¶ 28 through 39 of this Stipulation and the determination of all controversies relating thereto, including disputed questions of law and fact with respect to the validity of Claims, shall be subject to the jurisdiction of the Court, but shall not in any event delay or affect the finality of the Judgment.

38. No Person shall have any claim, cause of action or rights of any kind against the Released Defendant Parties or Defendants' Counsel with respect to the matters set forth in this Section or any of its subsections.

39. No Person shall have any claim, cause of action or rights against the Named Plaintiffs, Class Counsel, the Claims Administrator, any other claims administrator, or other agent designated by Class Counsel based on the distributions made substantially in accordance with this Stipulation and the Settlement contained herein, the Plan of Allocation, or further order(s) of the Court.

REQUESTS FOR EXCLUSION AND OBJECTIONS

40. The Claims Administrator shall cause the Notice to be provided to the Classes, subject to the approval of the Court, pursuant to ¶¶ 23-26. A Person requesting exclusion from the Holder Class or the Seller Class must provide a written, signed request for exclusion to the Claims Administrator containing the following information: (i) name; (ii) address; (iii)

telephone number; (iv) identity and original face value of the Preferred Stock purchased (or otherwise acquired) or sold; (v) prices or other consideration paid for the Preferred Stock; (vi) the date of each purchase and sale transaction; and (vii) a statement that the Person wishes to be excluded from the Settlement. Members of the Classes may not exclude themselves by filing requests for exclusion as a group or class, but must in each instance individually and personally execute the request.

41. Unless otherwise ordered by the Court, any member of the Holder Class or Seller Class who or which does not submit a timely written request for exclusion as provided by this section shall, upon entry of the Final Approval Order, be bound by this Stipulation, whether or not such Person objected to the Settlement and whether or not such Person received Settlement consideration. Named Plaintiffs shall request that the Court set as the deadline for submitting requests for exclusion twenty-one (21) calendar days prior to the Final Approval Hearing.

42. The Claims Administrator shall scan and electronically send copies of all requests for exclusion in PDF format (or such other format as agreed to by the Parties) to Defendants' Counsel and Class Counsel expeditiously (and not more than three (3) business days) after the Claims Administrator receives such a request. As part of the motion papers in support of the final approval of the Settlement, Class Counsel will provide to Defendants' Counsel a list of all the Persons who or which have requested exclusion from the Holder Class or the Seller Class and certify that all requests for exclusion received by the Claims Administrator have been copied and provided to Defendants' Counsel.

43. The Notice shall also provide the process by which members of the Classes must comply in order to submit for the Court's consideration any objection to the Settlement. In addition, upon the filing of an objection, Class Counsel may take the deposition of the objecting

Class member pursuant to the Federal Rules of Civil Procedure at an agreed-upon time and location, and to obtain any evidence relevant to the objection. Failure by an objector to make himself or herself available for a deposition or comply with expedited discovery may result in the Court striking the objection. The Court may tax the costs of any such discovery to the objector or the objector's counsel if the Court determines that the objection is frivolous or is made for an improper purpose. In addition, any member of the Classes objecting to the settlement shall provide a list of all other objections submitted by the objector, or the objector's counsel, to any class action settlements in any court in the United States in the previous five years. If the objecting member of the Classes or his, her, or its counsel has not objected to any other class action settlement in the United States in the previous five years, he, she, or it shall so state in the objection.

44. Because any appeal by an objecting member of the Classes would delay the payment under the Settlement, Class Counsel may seek a cash bond to be set by the district court sufficient to account for, among other things, damages to the Classes, including lost interest, caused by the delay.

ATTORNEYS' FEES AND EXPENSES

45. Class Counsel intends to submit to the Court a Class Counsel Fees and Expenses Application. Defendants shall not object to Class Counsel's request to the Court for: (i) a Class Counsel Fees and Expenses Award of reasonable attorneys' fees and expenses in the aggregate amount of $4,000,000 to be paid by Defendant W2007 Grace to Class Counsel upon Court approval; (ii) an award of Seller Class-related litigation expenses, other than the Seller Class Notice and Administration Expenses, not to exceed $150,000, to be paid out of the Seller Class Settlement Fund upon Court approval; and (iii) a payment of case contribution awards in the

amount of $7,500 to each Named Plaintiff for the time and expenses incurred in bringing and litigating this Action to be paid by Defendant W2007 Grace upon Court approval. The Parties agree that the denial, in whole or in part, of any Class Counsel Fees and Expenses Application or any case contribution award to Named Plaintiffs shall in no way affect the enforceability, validity or finality of the Settlement.

46. Any Class Counsel Fees and Expenses Award and any case contribution award shall be paid to Class Counsel by W2007 Grace within ten (10) business days after the later of (i) the Effective Date, or (ii) receipt by Defendants' Counsel from Class Counsel of full and complete wiring or other instructions necessary for such payment and an executed W-9 for the Class Counsel Fees and Expenses Award.

47. Named Plaintiffs and Class Counsel may not cancel or terminate this Stipulation or the Settlement in accordance with ¶ 59 of this Stipulation or otherwise based on this Court's or any appellate court's ruling with respect to the Class Counsel Fees and Expenses Application or other fee, expense or case contribution award in the Action. The Released Defendant Parties and Defendants' Counsel shall have no responsibility for, and no liability whatsoever with respect to, any payment to Class Counsel, Liaison Counsel, or any other Named Plaintiffs' counsel or any member of the Classes, or any other Person who or which may assert some claim thereto, that may occur at any time.

48. The Released Defendant Parties and Defendants' Counsel shall have no responsibility for, and no liability whatsoever with respect to, the allocation among Class Counsel, Liaison Counsel or any other Person who or which may assert some claim thereto, of any attorneys' fees, expense or case contribution awards that the Court may make in the Action.

49. The Released Defendant Parties and Defendants' Counsel shall have no responsibility for, and no liability whatsoever with respect to, any attorneys' fees, costs or expenses incurred by or on behalf of the Seller Class or Holder Class, except as provided for in ¶ 45 of this Stipulation.

50. The procedure for, and the allowance or disallowance by the Court of, any Class Counsel Fees and Expenses Application are not part of the Settlement set forth in this Stipulation, and are separate from the Court's consideration of the fairness, reasonableness and adequacy of the Settlement set forth in this Stipulation, and any order or proceeding relating to any Class Counsel Fees and Expenses Application, or any appeal from any order relating thereto or reversal or modification thereof, shall not operate to terminate or cancel this Stipulation, or affect or delay the finality of the Judgment approving this Stipulation and the Settlement, including, but not limited to, the release, discharge and relinquishment of the Released Claims against the Released Defendant Parties, or any other orders entered pursuant to this Stipulation.

ADMINISTRATION EXPENSES

51. The fees and expenses incurred for the administration, printing, mailing and postage for the Notice and the publication of a Summary Notice, shall be paid, on a non-recourse basis, 50% by Defendant W2007 Grace and 50% by the Seller Class Settlement Fund, and shall be drawn from the Escrow Account funded with $250,000 as provided for in ¶ 14 of this Stipulation. W2007 Grace will be credited with the $250,000 less 50% of the Notice costs when it funds the Seller Class Settlement Fund pursuant to ¶ 14 of this Stipulation.

52. Except as provided for in ¶ 14 of this Stipulation, any and all other expenses, costs, fees, checks, check mailing, and reissues related to the administration of the Seller Class shall be drawn from the Seller Class Settlement Fund.

53. Except as otherwise provided in this Stipulation, the Seller Class Settlement Fund shall remain in escrow pending: (i) Final approval of the Settlement by the Court; (ii) the expiration of all rights of appeal of the Judgment; and (iii) the Final denial of any and all appeals or objections or collateral attacks or challenges to the Settlement.

TERMS OF THE JUDGMENT

54. If the Settlement contemplated by this Stipulation is approved by the Court, Class Counsel and Defendants' Counsel shall jointly request that the Court enter a Judgment substantially in the form attached to this Stipulation as Exhibit 2 dismissing the Action with prejudice.

SUPPLEMENTAL AGREEMENT

55. Simultaneously with the execution of this Stipulation, Defendants' Counsel and Class Counsel are executing the Supplemental Agreement. The Supplemental Agreement sets forth certain conditions under which Defendants shall have the option (which option shall be exercised unilaterally by Defendants in their discretion) to terminate the Settlement and render this Stipulation null and void in the event that (i) requests for exclusion from the Holder Class exceed the Holder Class Opt-Out Threshold, (ii) requests for exclusion from the Seller Class exceed the Seller Class Opt-Out Threshold, or (iii) the holders of the percentage of outstanding shares of the Preferred Stock (other than shares held by Defendants and their affiliates) that give notice of their intention to assert dissenters' rights before the vote to approve the Merger is taken exceeds the Dissenting Shares Threshold, *provided however*, that Named Plaintiffs shall have ten (10) business days from the date by which notice must be given by the members of the Classes to request exclusion or assert dissenters' rights to reduce such opt-outs and dissenters below such thresholds.

56. With the exception of the Dissenting Shares Threshold, which is set forth in the Proxy Statement, the Parties agree to maintain the confidentiality of the Holder Class Opt-Out Threshold and the Seller Class Opt-Out Threshold in the Supplemental Agreement, which shall neither be filed with the Court unless a dispute arises as to its terms, or as otherwise ordered by the Court, nor otherwise disclosed unless required by applicable securities or other law. If submission of the Supplemental Agreement is required for resolution of a dispute or is otherwise ordered by the Court, the Parties shall submit the Holder Class Opt-Out Threshold and/or the Seller Class Opt-Out Threshold to the Court for *in camera* review.

57. In the event of a termination of this Settlement pursuant to the Supplemental Agreement, this Stipulation shall become null and void and of no further force and effect, with the exception of the confidentiality provisions set forth in ¶ 78 of this Stipulation, which shall continue to apply and survive termination.

EFFECTIVE DATE OF SETTLEMENT, WAIVER OR TERMINATION

58. The Effective Date of this Settlement shall be the date by which all of the following shall have occurred:

(a) entry of the Preliminary Approval Order, which shall be in all material respects substantially in the form set forth in Exhibit 6 annexed to this Stipulation;

(b) approval by the Court of the Settlement, following notice to the Class and a hearing, as prescribed by Rule 23 of the Federal Rules of Civil Procedure;

(c) the dismissal with prejudice of the *Dent* Action has become Final; and

(d) a Judgment, which shall be in all material respects substantially in the form set forth in Exhibit 2 annexed to this Stipulation, has been entered by the Court and has become Final or, in the event that the Court enters an Alternative Judgment and none of the

Parties elects to terminate this Settlement, the date on which such Alternative Judgment becomes Final.

59. Defendants and Named Plaintiffs each shall have the right to terminate the Settlement and this Stipulation by providing Termination Notice, through counsel, to all other Parties within thirty (30) calendar days of: (i) the Court's Final refusal to enter the Preliminary Approval Order in any material respect; (ii) the Court's Final refusal to approve this Stipulation or any material part of it; (iii) the Court's Final refusal to enter the Judgment in any material respect; (iv) the date upon which the Judgment is modified or reversed in any material respect by the Sixth Circuit or the Supreme Court; (v) in the event that the Court enters an Alternative Judgment and none of the Parties elects to terminate the Settlement, the date upon which such Alternative Judgment is modified or reversed in any material respect by the Sixth Circuit or the Supreme Court; or (vi) the Effective Date of the Settlement otherwise does not occur; *provided*, *however*, that none of the contingencies specified in this paragraph shall include the failure of any court to approve or award the Class Counsel Fees and Expenses Application or any portion thereof and none of the Parties shall have any right to terminate the Settlement because of any such failure. The foregoing list is not intended to limit or impair the Parties' rights under the law of contracts of the State of Tennessee with respect to any breach of this Stipulation. In the event that the Settlement and Stipulation are terminated, the confidentiality provisions set forth in ¶ 78 of this Stipulation shall continue to apply and survive termination.

60. Defendants may elect, in their sole discretion, to terminate the Settlement if the Merger or the Charter Amendment is not approved by applicable requisite vote.

61. If an option to withdraw from and terminate this Stipulation arises under any of ¶¶ 59 or 60 of this Stipulation (i) neither Defendants nor Named Plaintiffs will be required for

any reason or under any circumstance to exercise that option and (ii) any exercise of that option shall be made in good faith, but in the sole and unfettered discretion of Defendants or Named Plaintiffs, as applicable.

62. Except as otherwise provided in this Stipulation, in the event the Settlement is terminated or the Effective Date of the Settlement otherwise does not occur for any reason, then: (i) the Settlement shall be without prejudice, and none of its terms, including, but not limited to, the certification of the Classes, shall be effective or enforceable except as expressly provided in this Stipulation or, in the case of the certification of the Classes, ordered by the Court; (ii) the Parties to this Stipulation shall be deemed to have reverted *nunc pro tunc* to their respective positions in the Action immediately prior to entering into the non-binding Memorandum of Understanding; and (iii) except as otherwise expressly provided in this Stipulation, the Parties shall proceed in the Action in all respects as if this Stipulation and any related orders had not been entered. In such event, the fact and terms of this Stipulation, or any aspect of the negotiations leading to this Stipulation, shall not be admissible in this Action and shall not be used by Named Plaintiffs or any other member of the Classes against Defendants or by Defendants against Named Plaintiffs or any other member of the Classes in any court filings, depositions, at trial or otherwise. Documents produced pursuant to the Parties' Agreement and Confidentiality Stipulation Governing Settlement Communications shall not be used by Named Plaintiffs for any purpose in this Action or otherwise, unless otherwise agreed to by the Parties or so ordered by the Court, and except that nothing in this paragraph shall limit the admissibility of any information, facts and documents obtained at any time, including during the course of the Parties' negotiations, to the extent such information, facts and documents are otherwise made

public, obtained from another source, and/or obtained through the ordinary course of discovery in this Action.

63. If the Settlement is terminated or the Effective Date of the Settlement otherwise does not occur for any reason, any portion of the Settlement Amount previously paid by or on behalf of Defendants, together with any interest earned thereon, less any Taxes paid or due, less Seller Class Notice and Administration Expenses actually incurred and paid or payable from the Settlement Amount, shall be returned to W2007 Grace within ten (10) business days after written notification of such event by either Class Counsel or Defendants' Counsel. At the request of Defendants' Counsel, the Escrow Agent or its designee shall apply for any tax refund owed on the amounts in the Escrow Account and pay the proceeds, after any deduction of any fees or expenses incurred in connection with such application(s), for refund to W2007 Grace.

64. In the event that the Settlement is terminated or the Effective Date of the Settlement otherwise does not occur for any reason, the Parties shall, within fourteen (14) calendar days of such cancellation, jointly request a status conference with the Court to be held on the Court's first available date. At such status conference, the Parties shall ask for the Court's assistance in scheduling continued proceedings in the Action between the Parties.

NO ADMISSION OF WRONGDOING

65. Except as provided in ¶ 66 of this Stipulation, this Stipulation, whether or not consummated, and any negotiations, proceedings or agreements relating to this Stipulation, the Settlement, and any matters arising in connection with settlement negotiations, proceedings or agreements, shall not be offered or received against any or all Defendants for any purpose, and in particular:

(a) do not constitute, and shall not be offered or received against Defendants, or any of them, as evidence of, or construed as evidence of, a presumption, concession or admission by any of Defendants with respect to: (i) the truth of any allegation by Named Plaintiffs or any other member of the Classes; (ii) the validity of any claim that has been or could have been asserted in the Action or in any litigation, including, but not limited to, the Released Claims; or (iii) any liability, negligence, fault or wrongdoing on the part of, or damages owed by, any or all of Defendants;

(b) do not constitute, and shall not be offered or received against (i) Defendants, or any of them, as evidence of, or construed as evidence of, a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any Defendant or (ii) Named Plaintiffs or any other member of the Classes as evidence of any infirmity or lack of merit as to the claims of Named Plaintiffs or the other members of the Classes;

(c) do not constitute, and shall not be offered or received against Defendants, or any of them, Named Plaintiffs or any other member of the Classes, as evidence of, or construed as evidence of, a presumption, concession or admission of any liability, negligence, fault, infirmity or wrongdoing on the part of, or any damages owed by, or in any way referred to for any other reason as against, any of the Parties to this Stipulation in any civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to consummate or effectuate the provisions of this Stipulation; and

(d) do not constitute, and shall not be offered or received against Named Plaintiffs or any other member of the Classes, as evidence of, or construed as evidence of, a presumption, concession or admission by Named Plaintiffs or any other member of the Classes

that damages recoverable under the amended complaint would not have exceeded the Settlement Amount.

66. Defendants may file this Stipulation and/or the Judgment in any action that may be brought against them in order to support a defense or counterclaim based on principles of *res judicata*, collateral estoppel, release, good-faith settlement, judgment bar or reduction, or any theory of claim preclusion or issue preclusion or similar defense or counterclaim, or to effectuate the liability protection granted them under any applicable insurance policies. The Parties may file this Stipulation and/or the Judgment in any action that may be brought to enforce the terms of this Stipulation and/or the Judgment. All Parties submit to the jurisdiction of the Court for purposes of implementing and enforcing the Settlement.

MISCELLANEOUS PROVISIONS

67. All of the exhibits to this Stipulation are material and integral parts of this Stipulation and are fully incorporated herein by this reference. In the event that there exists a conflict or inconsistency between the terms of this Stipulation and the terms of any exhibit to this Stipulation, the terms of this Stipulation shall govern.

68. Defendants shall be responsible for any notice for which they might be responsible pursuant to the Class Action Fairness Act, 28 U.S.C. § 1715.

69. If and to the extent that Defendant W2007 Grace is unable to satisfy a payment obligation to the Holder Class or the Seller Class under the Merger Agreement or any provision of this Stipulation, including but not limited to the payment obligations set forth in ¶¶ 6, 14, and 45, the Whitehall Parties shall cause that payment to be made.

70. Neither this Stipulation nor the Settlement, nor any act performed or document executed pursuant to or in furtherance of this Stipulation or Settlement, is or may be deemed to

be, or may be used as, (i) an admission or evidence of the validity of any Released Claim or any Released Defendants' Claim or of any wrongdoing or any liability of any of the Released Parties or (ii) an admission or evidence of any fault or omission of any of the Released Parties in any civil, criminal or administrative proceeding in any court, any arbitration proceeding or any administrative agency or other tribunal, other than in such proceedings as may be necessary to consummate or enforce this Stipulation, the Settlement or the Judgment.

71. The Parties to this Stipulation intend the Settlement to be the full, final and complete resolution of all claims asserted or that could have been asserted by the Parties with respect to the Released Claims and Released Defendants' Claims. Accordingly, Named Plaintiffs and Defendants agree not to assert in any forum that the Action was brought, prosecuted or defended in bad faith or without a reasonable basis. The Parties agree that each has complied fully with Rule 11 of the Federal Rules of Civil Procedure in connection with the maintenance, prosecution, defense and settlement of the Action. Defendants and Named Plaintiffs agree that the Settlement Amount and the other terms of the Settlement were negotiated at arm's length in good faith by Defendants and Named Plaintiffs, and their respective counsel, and reflect a settlement that was reached voluntarily based upon adequate information and after consultation with experienced legal counsel.

72. This Stipulation may not be modified or amended, nor may any of its provisions be waived, except by a writing signed by all Parties hereto or their successors-in-interest.

73. The headings in this Stipulation are used for the purpose of convenience only and are not meant to have legal effect.

74. The administration and consummation of the Settlement as embodied in this Stipulation shall be under the authority of the Court, and the Court shall retain jurisdiction for the

purpose, *inter alia*, of entering orders, providing for approval of the Class Counsel Fees and Expenses Application or any other fees and expenses awards, and implementing and enforcing the terms of this Stipulation.

75. Unless required by a Court, no Party or counsel shall disseminate, refer to, or otherwise distribute to any third party, any information regarding the negotiation of the Settlement between the Parties, or any information or documents they obtained from another Party in connection with the Settlement, except as is customary or necessary in connection with this Stipulation or Court approval of the Settlement, or as the Parties may otherwise agree or as shall be required by law. Notwithstanding the foregoing sentence, disclosure of this Stipulation and the documents referred to and incorporated by reference in ¶ 67 of this Stipulation will be restricted only subject to and in accordance with the provisions of this Stipulation.

76. The waiver by one Party of any breach of this Stipulation by any other Party will not be deemed a waiver of any other prior or subsequent breach of this Stipulation.

77. This Stipulation, its exhibits and the Supplemental Agreement constitute the entire agreement among the Parties hereto concerning the Settlement of the Action as against Defendants, and no representations, warranties, or inducements have been made by any Party hereto concerning this Stipulation and its exhibits other than those contained and memorialized in such documents.

78. All agreements made and orders entered during the course of the Action relating to the confidentiality of information shall survive this Stipulation. Pursuant to the Stipulated Protective Order, entered by the Court on May 16, 2014, within sixty (60) calendar days after the Judgment becomes Final, the Parties shall take commercially reasonable steps to ensure that all

Confidential Discovery Material or Highly Confidential Discovery Material (as defined in the Stipulated Protective Order) shall be returned or destroyed.

79. Nothing in this Stipulation, or the negotiations relating thereto, is intended to or shall be deemed to constitute a waiver of any applicable privilege or immunity, including, without limitation, attorney-client privilege, joint defense privilege, or work product protection.

80. This Stipulation may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument, *provided* that counsel for the Parties to this Stipulation shall exchange among themselves original signed counterparts. Signatures sent by facsimile or sent electronically will be deemed originals.

81. This Stipulation shall be binding when signed, but the Settlement shall be effective only on the condition that the Effective Date occurs.

82. This Stipulation shall be binding upon, and inure to the benefit of, the successors and assigns of the Parties hereto, including any and all Parties, and any corporation, partnership, or other entity into or with which any Party may hereto merge, consolidate or reorganize.

83. The construction, interpretation, operation, effect and validity of this Stipulation, and all documents necessary to effectuate it, shall be governed by the internal laws of the State of Tennessee without regard to conflicts of laws, except to the extent that federal law requires that federal law govern.

84. This Stipulation shall not be construed more strictly against one Party than another merely by virtue of the fact that it, or any part of it, may have been prepared by counsel for one of the Parties, it being recognized that it is the result of arm's-length negotiations among the Parties, and all Parties have contributed substantially and materially to the preparation of this Stipulation.

85. Class Counsel, on behalf of the Named Plaintiffs, and Defendants' Counsel, on behalf of Defendants, warrant and represent that they are expressly authorized by Named Plaintiffs and Defendants, respectively, to take all appropriate action required or permitted to be taken pursuant to this Stipulation to effectuate its terms and also are expressly authorized to enter into any modifications or amendments to this Stipulation that they deem appropriate.

86. All counsel and any other person executing this Stipulation and any of the exhibits hereto, or any related Settlement documents, warrant and represent that they have the full authority to do so, and that they have the authority to take appropriate action required or permitted to be taken pursuant to this Stipulation to effectuate its terms.

87. Class Counsel and Defendants' Counsel agree to cooperate reasonably with one another in seeking Court approval of the Preliminary Approval Order, this Stipulation and the Settlement and in consummating the Settlement in accordance with its terms, and to agree promptly upon and execute all such other documentation as reasonably may be required to obtain final approval by the Court of the Settlement.

88. Except as otherwise provided in this Stipulation, each Party shall bear its own costs.

IN WITNESS WHEREOF, the Parties hereto have caused this Stipulation to be executed, by their duly authorized attorneys, as of October 8, 2014.

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Annex D – Tennessee Dissenters' Rights Statutes

PART 1 — RIGHT TO DISSENT AND OBTAIN PAYMENT FOR SHARES

48-23-101. Definitions. — As used in this chapter, unless the context otherwise requires:

(1) "Beneficial shareholder" means the person who is a beneficial owner of shares held by a nominee as the record shareholder;

(2) "Corporation" means the issuer of the shares held by a dissenter before the corporate action, and, for purposes of §§ 48-23-203--48-23-302, includes the survivor of a merger or conversion or the acquiring entity in a share exchange of that issuer;

(3) "Dissenter" means a shareholder who is entitled to dissent from corporate action under § 48-23-102 and who exercises that right when and in the manner required by part 2 of this chapter;

(4) "Fair value," with respect to a dissenter's shares, means the value of the shares immediately before the effectuation of the corporate action to which the dissenter objects, excluding any appreciation or depreciation in anticipation of the corporate action;

(5) "Interest" means interest from the effective date of the corporate action that gave rise to the shareholder's right to dissent until the date of payment, at the average auction rate paid on United States treasury bills with a maturity of six (6) months (or the closest maturity thereto) as of the auction date for such treasury bills closest to such effective date;

(6) "Record shareholder" means the person in whose name shares are registered in the records of a corporation or the beneficial owner of shares to the extent of the rights granted by a nominee certificate on file with a corporation; and

(7) "Shareholder" means the record shareholder or the beneficial shareholder.

48-23-102. Shareholders rights. — (a) A shareholder is entitled to dissent from, and obtain payment of the fair value of the shareholder's shares in the event of, any of the following corporate actions:

(1) Consummation of a plan of merger to which the corporation is a party:

(A) If shareholder approval is required for the merger by § 48-21-104 or the charter and the shareholder is entitled to vote on the merger if the merger is submitted to a vote at a shareholders' meeting or the shareholder is a nonconsenting shareholder under § 48-17-104(b) who would have been entitled to vote on the merger if the merger had been submitted to a vote at a shareholders' meeting; or

(B) If the corporation is a subsidiary that is merged with its parent under § 48-21-105;

(2) Consummation of a plan of share exchange to which the corporation is a party as the corporation whose shares will be acquired, if the shareholder is entitled to vote on the plan if the plan is submitted to a vote at a shareholders' meeting or the shareholder is a nonconsenting shareholder under § 48-17-104(b) who would have been entitled to vote on the plan if the plan had been submitted to a vote at a shareholders' meeting;

(3) Consummation of a sale or exchange of all, or substantially all, of the property of the corporation other than in the usual and regular course of business, if the shareholder is entitled to vote on the sale or exchange if the sale or exchange is submitted to a vote at a shareholders' meeting or the shareholder is a nonconsenting shareholder under § 48-17-104(b) who would have been entitled to vote on the sale or exchange if the sale or exchange had been submitted to a vote at a shareholders' meeting, including a sale of all, or substantially all, of the property of the corporation in dissolution, but not including a sale pursuant to court order or a sale for cash pursuant to a plan by which all or substantially all of the net proceeds of the sale will be distributed to the shareholders within one (1) year after the date of sale;

(4) An amendment of the charter that materially and adversely affects rights in respect of a dissenter's shares because it:

(A) Alters or abolishes a preferential right of the shares;

(B) Creates, alters, or abolishes a right in respect of redemption, including a provision respecting a sinking fund for the redemption or repurchase, of the shares;

(C) Alters or abolishes a preemptive right of the holder of the shares to acquire shares or other securities;

(D) Excludes or limits the right of the shares to vote on any matter, or to cumulate votes, other than a limitation by dilution through issuance of shares or other securities with similar voting rights; or

(E) Reduces the number of shares owned by the shareholder to a fraction of a share, if the fractional share is to be acquired for cash under § 48-16-104;

(5) Any corporate action taken pursuant to a shareholder vote to the extent the charter, bylaws, or a resolution of the board of directors provides that voting or nonvoting shareholders are entitled to dissent and obtain payment for their shares; or

(6) Consummation of a conversion of the corporation to another entity pursuant to chapter 21 of this title.

(b) A shareholder entitled to dissent and obtain payment for the shareholder's shares under this chapter may not challenge the corporate action creating the shareholder's entitlement unless the action is unlawful or fraudulent with respect to the shareholder or the corporation.

(c) Notwithstanding subsection (a), no shareholder may dissent as to any shares of a security which, as of the date of the effectuation of the transaction which would otherwise give rise to dissenters' rights, is listed on an exchange registered under § 6 of the Securities Exchange Act of 1934, compiled in 15 U.S.C. § 78f, as amended, or is a "national market system security," as defined in rules promulgated pursuant to the Securities Exchange Act of 1934, compiled in 15 U.S.C. § 78a, as amended.

48-23-103. Partial dissenters; beneficial owners. — (a) A record shareholder may assert dissenters' rights as to fewer than all the shares registered in the record shareholder's name only if the record shareholder dissents with respect to all shares beneficially owned by any one (1) person and notifies the corporation in writing of the name and address of each person on whose behalf the record shareholder asserts dissenters' rights. The rights of a partial dissenter under this subsection (a) are determined as if the shares as to which the partial dissenter dissents and the partial dissenter's other shares were registered in the names of different shareholders.

(b) A beneficial shareholder may assert dissenters' rights as to shares of any one (1) or more classes held on the beneficial shareholder's behalf only if the beneficial shareholder:

(1) Submits to the corporation the record shareholder's written consent to the dissent not later than the time the beneficial shareholder asserts dissenters' rights; and

(2) Does so with respect to all shares of the same class of which the person is the beneficial shareholder or over which the person has power to direct the vote.

PART 2 — PROCEDURE FOR EXERCISE OF DISSENTERS' RIGHTS

48-23-201. Notice of dissenters' rights. — (a) Where any corporate action specified in § 48-23-102(a) is to be submitted to a vote at a shareholders' meeting, the meeting notice (including any meeting notice required under chapters 11-27 to be provided to nonvoting shareholders) must state that the corporation has concluded that the shareholders are, are not, or may be entitled to assert dissenters' rights under this chapter. If the corporation concludes that dissenters' rights are or may be available, a copy of this chapter must accompany the meeting notice sent to those record shareholders entitled to exercise dissenters' rights.

(b) In a merger pursuant to § 48-21-105, the parent corporation must notify in writing all record shareholders of the subsidiary who are entitled to assert dissenters rights that the corporate action became effective. Such notice must be sent within ten (10) days after the corporate action became effective and include the materials described in § 48-23-203.

(c) Where any corporate action specified in § 48-23-102(a) is to be approved by written consent of the shareholders pursuant to § 48-17-104(a) or § 48-17-104(b):

(1) Written notice that dissenters' rights are, are not, or may be available must be sent to each record shareholder from whom a consent is solicited at the time consent of such shareholder is first solicited and, if the corporation has concluded that dissenters' rights are or may be available, must be accompanied by a copy of this chapter; and

(2) Written notice that dissenters' rights are, are not, or may be available must be delivered together with the notice to nonconsenting and nonvoting shareholders required by § 48-17-104(e) and (f), may include the materials described in § 48-23-203 and, if the corporation has concluded that dissenters' rights are or may be available, must be accompanied by a copy of this chapter.

(d) A corporation's failure to give notice pursuant to this section will not invalidate the corporate action.

48-23-202. Notice of intent to demand payment. — (a) If a corporate action specified in § 48-23-102(a) is submitted to a vote at a shareholders' meeting, a shareholder who wishes to assert dissenters' rights with respect to shares for which dissenters' rights may be asserted under this chapter:

(1) Must deliver to the corporation, before the vote is taken, written notice of the shareholder's intent to demand payment if the proposed action is effectuated; and

(2) Must not vote, or cause or permit to be voted, any such shares in favor of the proposed action.

(b) If a corporate action specified in § 48-23-102(a) is to be approved by less than unanimous written consent, a shareholder who wishes to assert dissenters' rights with respect to shares for which dissenters' rights may be asserted under this chapter must not sign a consent in favor of the proposed action with respect to such shares.

(c) A shareholder who fails to satisfy the requirements of subsection (a) or subsection (b) is not entitled to payment under this chapter.

48-23-203. Dissenters' notice. — (a) If a corporate action requiring dissenters' rights under § 48-23-102(a) becomes effective, the corporation must send a written dissenters' notice and form required by subdivision (b)(1) to all shareholders who satisfy the requirements of § 48-23-202(a) or § 48-23-202(b). In the case of a merger under § 48-21-105, the parent must deliver a dissenters' notice and form to all record shareholders who may be entitled to assert dissenters' rights.

(b) The dissenters' notice must be delivered no earlier than the date the corporate action specified in § 48-23-102(a) became effective, and no later than (10) days after such date, and must:

(1) Supply a form that:

(A) Specifies the first date of any announcement to shareholders made prior to the date the corporate action became effective of the principal terms of the proposed corporate action;

(B) If such announcement was made, requires the shareholder asserting dissenters' rights to certify whether beneficial ownership of those shares for which dissenters' rights are asserted was acquired before that date; and

(C) Requires the shareholder asserting dissenters' rights to certify that such shareholder did not vote for or consent to the transaction;

(2) State:

(A) Where the form must be sent and where certificates for certificated shares must be deposited and the date by which those certificates must be deposited, which date may not be earlier than the date for receiving the required form under subdivision (b)(2)(B);

(B) A date by which the corporation must receive the form, which date may not be fewer than forty (40) nor more than sixty (60) days after the date the subsection (a) dissenters' notice is sent, and state that the shareholder shall have waived the right to demand payment with respect to the shares unless the form is received by the corporation by such specified date;

(C) The corporation's estimate of the fair value of shares;

(D) That, if requested in writing, the corporation will provide, to the shareholder so requesting, within ten (10) days after the date specified in subdivision (b)(2)(B) the number of shareholders who return the forms by the specified date and the total number of shares owned by them; and

(3) Be accompanied by a copy of this chapter if the corporation has not previously sent a copy of this chapter to the shareholder pursuant to § 48-23-201.

48-23-204. Shareholder demanding payment and depositing share certificates. — (a) A shareholder sent a dissenters' notice described in § 48-23-203 must demand payment, certify whether the shareholder acquired beneficial ownership of the shares before the date required to be set forth in the dissenters' notice pursuant to § 48-23-203(b)(2), and deposit the shareholder's certificates in accordance with the terms of the notice.

(b) The shareholder who demands payment and deposits the shareholder's share certificates under subsection (a) retains all other rights of a shareholder until these rights are cancelled or modified by the effectuation of the proposed corporate action.

(c) A shareholder who does not demand payment or deposit the shareholder's share certificates where required, each by the date set in the dissenters' notice, is not entitled to payment for the shareholder's shares under this chapter.

(d) A demand for payment filed by a shareholder may not be withdrawn unless the corporation with which it was filed, or the surviving corporation, consents thereto.

48-23-205. Restricting transfer of uncertificated shares. — (a) The corporation may restrict the transfer of uncertificated shares from the date the demand for their payment is received until the proposed corporate action is effectuated or the restrictions released under § 48-23-207.

(b) The person for whom dissenters' rights are asserted as to uncertificated shares retains all other rights of a shareholder until these rights are cancelled or modified by the effectuation of the proposed corporate action.

48-23-206. Payments to dissenters. — (a) Except as provided in § 48-23-208, as soon as the proposed corporate action is effectuated, or upon receipt of a payment demand, whichever is later, the corporation shall pay each dissenter who complied with § 48-23-204 the amount the corporation estimates to be the fair value of each dissenter's shares, plus accrued interest.

(b) The payment must be accompanied by:

(1) The corporation's balance sheet as of the end of a fiscal year ending not more than sixteen (16) months before the date of payment, an income statement for that year, a statement of changes in shareholders' equity for that year, and the latest available interim financial statements, if any;

(2) A statement of the corporation's estimate of the fair value of the shares, which estimate shall equal or exceed the corporation's estiamte given pursuant to §48-23-203(b)(2)(C);

(3) An explanation of how the interest was calculated;

(4) A statement of the dissenter's right to demand payment under § 48-23-209; and

(5) A copy of this chapter if the corporation has not previously sent a copy of this chapter to the shareholder pursuant to § 48-23-201 or § 48-23-203.

48-23-207. Corporations failure to effectuate proposed action. — (a) If the corporation does not effectuate the proposed action that gave rise to the dissenters' rights within two (2) months after the date set for demanding payment and depositing share certificates, the corporation shall return the deposited certificates and release the transfer restrictions imposed on uncertificated shares.

(b) If, after returning deposited certificates and releasing transfer restrictions, the corporation effectuates the proposed action, it must send a new dissenters' notice under § 48-23-203 and repeat the payment demand procedure.

48-23-208. After-acquired shares; withholding payment. — (a) A corporation may elect to withhold payment required by § 48-23-206 from a dissenter unless the dissenter was the beneficial owner of the shares before the date set forth in the dissenters' notice as the date of the first announcement to news media or to shareholders of the principal terms of the proposed corporate action.

(b) To the extent the corporation elects to withhold payment under subsection (a), after effectuating the proposed corporate action, it shall estimate the fair value of the shares, plus accrued interest, and shall pay this amount to each dissenter who agrees to accept it in full satisfaction of the dissenter's demand. The corporation shall send with its offer a statement of its estimate of the fair value of the shares, an explanation of how the interest was calculated, and a statement of the dissenter's right to demand payment under § 48-23-209.

48-23-209. Disagreement between dissenter and corporation regarding fair value. — (a) A dissenter may notify the corporation in writing of the dissenter's own estimate of the fair value of the dissenter's shares and amount of interest due, and demand payment of the dissenter's estimate (less any payment under § 48-23-206), or reject the corporation's offer under § 48-23-208 and demand payment of the fair value of the dissenter's shares and interest due, if:

(1) The dissenter believes that the amount paid under § 48-23-206 or offered under § 48-23-208 is less than the fair value of the dissenter's shares or that the interest due is incorrectly calculated;

(2) The corporation fails to make payment under § 48-23-206 within two (2) months after the date set for demanding payment; or

(3) The corporation, having failed to effectuate the proposed action, does not return the deposited certificates or release the transfer restrictions imposed on uncertificated shares within two (2) months after the date set for demanding payment.

(b) A dissenter waives the dissenter's right to demand payment under this section unless the dissenter notifies the corporation of the dissenter's demand in writing under subsection (a) within one (1) month after the corporation made or offered payment for the dissenter's shares.

PART 3 — JUDICIAL APPRAISAL OF SHARES

48-23-301. Commencement of proceeding; parties; jurisdiction; judgment. — (a) If a demand for payment under § 48-23-209 remains unsettled, the corporation shall commence a proceeding within two (2) months after receiving the payment demand and petition the court to determine the fair value of the shares and accrued interest. If the corporation does not commence the proceeding within the two-month period, it shall pay each dissenter whose demand remains unsettled the amount demanded.

(b) The corporation shall commence the proceeding in a court of record having equity jurisdiction in the county where the corporation's principal office (or, if none in this state, its registered office) is located. If the corporation is a foreign corporation without a registered office in this state, it shall commence the proceeding in the county in this state where the registered office of the domestic corporation merged with or whose shares were acquired by the foreign corporation was located.

(c) The corporation shall make all dissenters (whether or not residents of this state) whose demands remain unsettled, parties to the proceeding as in an action against their shares and all parties must be served with a copy of the petition. Nonresidents may be served by registered or certified mail or by publication as provided by law.

(d) The jurisdiction of the court in which the proceeding is commenced under subsection (b) is plenary and exclusive. The court may appoint one (1) or more persons as appraisers to receive evidence and recommend decision on the question of fair value. The appraisers have the powers described in the order appointing them, or in any amendment to it. The dissenters are entitled to the same discovery rights as parties in other civil proceedings.

(e) Each dissenter made a party to the proceeding is entitled to judgment:

(1) For the amount, if any, by which the court finds the fair value of the dissenter's shares, plus accrued interest, exceeds the amount paid by the corporation; or

(2) For the fair value, plus accrued interest, of the dissenter's after-acquired shares for which the corporation elected to withhold payment under § 48-23-208.

48-23-302. Costs and attorney fees. — (a) The court in an appraisal proceeding commenced under § 48-23-301 shall determine all costs of the proceeding, including the reasonable compensation and expenses of appraisers appointed by the court. The court shall assess the costs against the corporation, except that the court may assess costs against all or some of the dissenters, in amounts the court finds equitable, to the extent the court finds the dissenters acted arbitrarily, vexatiously, or not in good faith in demanding payment under § 48-23-209.

(b) The court may also assess the fees and expenses of counsel and experts for the respective parties, in amounts the court finds equitable against:

(1) The corporation and in favor of any or all dissenters if the court finds the corporation did not substantially comply with the requirements of part 2 of this chapter; or

(2) Either the corporation or a dissenter, in favor of any other party, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by this chapter.

(c) If the court finds that the services of counsel for any dissenter were of substantial benefit to other dissenters similarly situated, and that the fees for those services should not be assessed against the corporation, the court may award to these counsel reasonable fees to be paid out of the amounts awarded to the dissenters who were benefited.

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Annex E - Audited consolidated financial statements of the Company as of December 31, 2014, 2013 and 2012 and for each of the four years ended December 31, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
W2007 Grace Acquisition I, Inc.

We have audited the accompanying consolidated balance sheets of W2007 Grace Acquisition I, Inc. as of December 31, 2014, 2013 and 2012, and the related consolidated statements of operations and comprehensive loss, changes in equity and cash flows for each of the four years in the period ended December 31, 2014. Our audits also included the financial statement schedules listed in the Index at Item 15.2. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of W2007 Grace Acquisition I, Inc. at December 31, 2014, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the four years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its reporting of discontinued operations as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity". Our opinion is not modified with respect to this matter.

/s/ Ernst & Young, LLP
Fort Worth, TX
May 1, 2015

W2007 GRACE ACQUISITION I, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2014	December 31, 2013	December 31, 2012
ASSETS			
INVESTMENTS IN REAL ESTATE, net	$ 240,830	$1,392,097	$1,562,422
INVESTMENT IN SENIOR MEZZ	4,920	—	—
CASH AND CASH EQUIVALENTS	12,444	12,404	13,051
RESTRICTED CASH	2,809	46,849	35,341
ACCOUNTS RECEIVABLE, net	1,906	8,453	8,760
OTHER ASSETS	834	6,492	5,548
DEFERRED FINANCING COSTS, net of accumulated amortization of $1,803, $36,309 and $36,235, respectively	359	614	980
DEFERRED FRANCHISE FEES, net of accumulated amortization of $820, $3,704 and $3,283, respectively	918	3,541	4,260
Total assets	$ 265,020	$1,470,450	$1,630,362
LIABILITIES AND EQUITY			
NOTES PAYABLE	$ 203,126	$1,161,725	$1,245,557
OTHER LIABILITIES:			
Accounts payable and accrued liabilities	33,437	41,986	42,347
Payable to affiliate	6,763	—	—
Accrued interest payable	1,020	16,529	20,619
Total liabilities	244,346	1,220,240	1,308,523
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Preferred stock, $0.01 par value, 10,000,000 shares authorized:			
Series B, 8.75%, $0.01 par value, $25.00 redemption value, 3,450,000 shares issued and outstanding	60,375	60,375	60,375
Series C, 9.00%, $0.01 par value, $25.00 redemption value, 2,400,000 shares issued and outstanding	40,800	40,800	40,800
Series D, 8.00%, $0.01 par value, $250.00 redemption value, 125 shares issued and outstanding	31	31	31
Common stock, $0.01 par value, 100,000,000 shares authorized, 100 shares issued and outstanding	—	—	—
Additional paid-in-capital	9,979	10,195	10,195
Retained deficit	(74,764)	(47,484)	(45,682)
Total shareholders' equity	36,421	63,917	65,719
NON-CONTROLLING EQUITY PURCHASE OPTION	—	175,000	175,000
NON-CONTROLLING INTEREST	(15,747)	11,293	81,120
Total equity	20,674	250,210	321,839
Total liabilities and equity	$ 265,020	$1,470,450	$1,630,362

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

W2007 GRACE ACQUISITION I, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands)

	Year Ended December 31,			
	2014	2013	2012	2011
REVENUES:				
Rooms	$173,222	$413,732	$ 395,697	$374,706
Food and beverage	3,522	8,164	7,760	7,228
Other	2,883	6,655	6,390	6,365
Total hotel revenues	179,627	428,551	409,847	388,299
OPERATING EXPENSES:				
Direct hotel expenses:				
Rooms	42,743	106,117	103,885	98,074
Food and beverage	3,167	7,645	7,395	6,618
Other	1,708	4,398	4,527	4,563
Non-departmental	55,829	135,187	128,921	124,182
Property tax, ground lease, insurance and property management fees	13,064	31,656	31,020	29,440
Corporate overhead	5,967	6,454	6,482	5,245
Asset management fees	3,073	7,063	6,648	6,137
Depreciation and amortization	33,308	83,292	85,298	78,983
Impairment charges	9,036	27,656	85,684	4,483
Total operating expenses	167,895	409,468	459,860	357,725
OPERATING INCOME	11,732	19,083	(50,013)	30,574
Equity in loss from Senior Mezz	(1,429)	—	—	—
Interest income	76	82	87	101
Interest expense	(31,325)	(82,856)	(84,433)	(84,512)
Other income	112	216	35	18
Unrealized loss on derivatives	—	(57)	(35)	(401)
Contingent loss on litigation settlement	(24,250)	—	—	—
Gain on sale of investment in real estate	221	—	—	—
Gain on extinguishment of debt	13,199	—	—	—
LOSS FROM CONTINUING OPERATIONS	(31,664)	(63,532)	(134,359)	(54,220)
Income (loss) from discontinued operations	—	(8,081)	(1,876)	4,720
NET LOSS	(31,664)	(71,613)	(136,235)	(49,500)
Net loss attributable to non-controlling interest	4,384	69,811	134,400	48,924
NET LOSS ATTRIBUTABLE TO THE COMPANY	$ (27,280)	$ (1,802)	$ (1,835)	$ (576)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS:				
Loss from continuing operations	$ (27,280)	$ (1,721)	$ (1,816)	$ (623)
Income (loss) from discontinued operations	—	(81)	(19)	47
Net loss attributable to common shareholders	$ (27,280)	$ (1,802)	$ (1,835)	$ (576)
COMPREHENSIVE LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (27,280)	$ (1,802)	$ (1,835)	$ (576)

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

W2007 GRACE ACQUISITION I, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Deficit	Non-controlling Equity Purchase Option	Non-controlling Interest	Total
	Shares	Dollars	Shares	Dollars					
Balance at January 1, 2011	5,850,125	$101,206	100	$ —	$ 9,128	$(43,271)	$ 281,811	$ 158,790	$ 507,664
Net loss	—	—	—	—		(576)	—	(48,924)	(49,500)
Distributions [1]	—	—	—	—	(1)	—	—	(76)	(77)
Preferred stock dividends	—	—	—	—	—	—	—	—	—
Balance at December 31, 2011	5,850,125	$101,206	100	$ —	$ 9,127	$(43,847)	$ 281,811	$ 109,790	$ 458,087
Net loss	—	—	—	—	—	(1,835)	—	(134,400)	(136,235)
Distributions [1]	—	—	—	—	—	—	—	(13)	(13)
Adjustment to non-controlling equity purchase option	—	—	—	—	1,068	—	(106,811)	105,743	—
Preferred stock dividends	—	—	—	—	—	—	—	—	—
Balance at December 31, 2012	5,850,125	$101,206	100	$ —	$ 10,195	$(45,682)	$ 175,000	$ 81,120	$ 321,839
Net loss	—	—	—	—	—	(1,802)	—	(69,811)	(71,613)
Distributions [1]	—	—	—	—	—	—	—	(16)	(16)
Preferred stock dividends	—	—	—	—	—	—	—	—	—
Balance at December 31, 2013	5,850,125	$101,206	100	$ —	$ 10,195	$(47,484)	$ 175,000	$ 11,293	$ 250,210
Net loss	—	—	—	—	—	(27,280)	—	(4,384)	(31,664)
Distributions [1]	—	—	—	—	—	—	—	(9)	(9)
Forgiveness of accrued asset management fees	—	—	—	—	80	—	—	6,628	6,708
Exercise of Purchase Option	—	—	—	—	(296)	—	(175,000)	(29,275)	(204,571)
Balance at December 31, 2014	5,850,125	$101,206	100	$ —	$ 9,979	$(74,764)	$ —	$ (15,747)	$ 20,674

(1) Distribution to Grace I for corporate expenses incurred.

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

W2007 GRACE ACQUISITION I, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,			
	2014	2013	2012	2011
		(Unaudited)		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$ (31,664)	$(71,613)	$(136,235)	$(49,500)
Adjustments to reconcile net loss to net cash from operating activities:				
Bad debt expense	51	72	250	283
Accretion of notes payable fair value adjustment at acquisition	1,006	1,507	1,076	1,133
Amortization of deferred financing costs	255	366	290	308
Deductible on involuntary conversion claims	269	532	992	360
Fair value adjustment of derivative instruments	—	57	35	401
Depreciation and amortization	33,308	86,504	89,818	82,977
Amortization of below market ground leases	73	262	284	305
Equity in loss from Senior Mezz	1,429	—	—	—
Net (gain) loss on extinguishment of debt	(13,199)	2,647	—	(7,488)
Net (gain) loss on sale of investments in real estate	(221)	5,890	(254)	357
Impairment charges	9,036	27,656	86,715	4,483
Contingent loss on litigation settlement	24,250	—	—	—
Changes in operating assets and liabilities:				
Accounts receivable	(3,615)	(272)	(170)	1,137
Other assets	(2,155)	(380)	2,247	(1,306)
Accounts payable and accrued liabilities	5,525	2,443	3,882	2,120
Accrued interest payable	(2,310)	6,780	14,732	20,711
Net cash from operating activities	22,038	62,451	63,662	56,281
CASH FLOWS FROM INVESTING ACTIVITIES:				
Additions to investments in real estate	(11,602)	(23,682)	(46,356)	(42,427)
Proceeds from property casualty insurance	1,391	2,051	736	25
Change in restricted cash	30,121	(11,508)	6,639	2,486
Net proceeds from sale of investments in real estate	240	70,112	2,252	839
Payment of initial franchise fees	—	(1,158)	—	(85)
Net cash from (used in) investing activities	20,150	35,815	(36,729)	(39,162)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Principal payments on notes payable	(959,605)	(96,209)	(25,629)	(16,162)
Proceeds from notes payable	976,000	—	—	—
Advance from affiliate	1,700	—	—	—
Payment of defeasance premiums	—	(2,647)	—	—
Payment of deferred financing costs	(21,049)	—	—	—
Purchase of interest rate derivative instruments	(293)	(57)	(35)	—
Cash received in connection with the exercise of the purchase option	(38,901)	—	—	—
Net cash used in financing activities	(42,148)	(98,913)	(25,664)	(16,162)
NET CHANGE IN CASH AND CASH EQUIVALENTS	40	(647)	1,269	957
CASH AND CASH EQUIVALENTS, beginning of period	12,404	13,051	11,782	10,825
CASH AND CASH EQUIVALENTS, end of period	$ 12,444	$ 12,404	$ 13,051	$ 11,782
SUPPLEMENTAL DISCLOSURES:				
Interest paid	$ 31,502	$ 75,774	$ 69,952	$ 65,359
Non-cash additions to investments in real estate included in accounts payable and accrued liabilities	$ 1,453	$ 2,127	$ 4,226	$ 4,619
Non-cash additions to notes payable (interest on First Mezzanine Loan added to principal balance)	$ —	$ 10,870	$ 9,070	$ 7,772
Non-cash distributions to common shareholder	$ —	$ —	$ —	$ (1)
Non-cash distributions to non-controlling interest	$ (9)	$ (16)	$ (13)	$ (76)
Adjustment to non-controlling equity purchase option	$ —	$ —	$(106,811)	$ —

See Note 1 for the detail of the net assets transferred in conjunction with the exercise of the equity purchase option.

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

W2007 GRACE ACQUISITION I, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION:

W2007 Grace I, LLC (Grace I), a Tennessee limited liability company, was formed on June 20, 2007. Grace I is owned by W2007 Finance Sub, LLC, a Delaware limited liability company, and Whitehall Parallel Global Real Estate Limited Partnership 2007, a Delaware limited partnership (collectively, Whitehall). WNT is also owned by Whitehall. The general partner of Whitehall Parallel Global Real Estate Limited Partnership 2007 and the partnerships owning W2007 Finance Sub, LLC is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (GS Group) and, therefore, is an affiliate of GS Group. GS Group in turn also controls Goldman, Sachs & Co. (GS) and Goldman Sachs Mortgage Company (GSMC). Consequently, GS and GSMC are also affiliates of Whitehall.

Grace I, W2007 Grace Acquisition I, Inc. (Grace Acquisition I), Equity Inns, Inc. (Equity Inns), Grace II, L.P. (Grace II) and Equity Inns Partnership, L.P. (Equity LP) entered into an agreement and plan of merger (Merger Agreement) whereby Equity Inns would merge with and into Grace Acquisition I and Grace II would merge with and into Equity LP (Merger). The Merger was completed on October 25, 2007. Prior to the Merger, Grace Acquisition I had no operations other than its activities in anticipation of the Merger.

Prior to the Merger, Equity Inns was a public hotel company and had elected to be taxed as a real estate investment trust (REIT) for federal income tax purposes. Equity Inns, through its wholly owned subsidiary, Equity Inns Trust (Equity Trust), was the sole general partner of Equity LP. Equity Inns, Equity Trust and Equity LP (and its wholly owned subsidiaries) are hereinafter collectively referred to as Equity. Prior to the Merger, Equity owned 137 limited-service hotels located throughout the United States.

Subsequent to the Merger, Grace II changed its name to W2007 Equity Inns Partnership, L.P. (W2007 Equity LP). As of December 31, 2014, Grace I owns all of the common shares of Grace Acquisition I and Grace Acquisition I owns a 1% general partnership interest in W2007 Equity LP (with Grace I owning a 1% general partnership interest and a 98% limited partnership interest). Grace Acquisition I and W2007 Equity LP (and its wholly owned subsidiaries) are hereinafter referred to as the Company.

Following the Merger, the Company and Grace I entered into a Keepwell Agreement, effective as of the date of the Merger (the Keepwell Agreement), pursuant to which Grace I agreed to make such cash payments to the Company as are necessary to enable the Company to satisfy its obligations to the holders of the Company's 8.75% Series B cumulative preferred stock (Series B preferred stock) and 9.00% Series C cumulative preferred stock (Series C preferred stock) in accordance with the Company's charter when the Company determines, or is legally compelled, to satisfy such obligations. To date, no payments have been made and none are due under the Keepwell Agreement. The Keepwell Agreement may be terminated by Grace I at any time upon 30 days' prior written notice. There are no third-party beneficiaries of the Keepwell Agreement.

On March 31, 2008, Grace Acquisition I, pursuant to Section 856(g)(2) of the Internal Revenue Code of 1986, as amended (the Code), revoked its election under Section 856(c)(1) of the Code to be a REIT for the taxable year ending on December 31, 2008. Consequently, subsequent to December 31, 2007, Grace Acquisition I is subject to income taxes at statutory corporate rates.

The Company leased substantially all of its hotels to subsidiaries (TRS Lessees) of W2007 Equity Inns TRS Holdings, Inc. (TRS Holdings), a taxable REIT subsidiary, pursuant to certain percentage lease agreements (the TRS Leases). The TRS

Leases were necessary for the Company to comply with certain REIT provisions of the Code. As discussed above, the Company has revoked its election to be taxed as a REIT. As of December 31, 2012, all of the TRS Leases had been terminated.

In July 2012, WNT Holdings, LLC (WNT), a Delaware limited liability company and a subsidiary of Whitehall, acquired, for $175,000,000, an option (Purchase Option) to purchase a 97% equity interest in W2007 Equity Inns Senior Mezz, LLC (Senior Mezz), a wholly owned subsidiary of the Company, from an affiliate of GSMC. The Purchase Option was not effective or exercisable until certain notes payable of Senior Mezz and its subsidiaries had been paid in full. On April 11, 2014, Senior Mezz and its subsidiaries refinanced the GE Mortgage Note Payable (see Note 7) and WNT exercised the Purchase Option. As a result of the loss of control of Senior Mezz, effective April 11, 2014, the Company deconsolidated Senior Mezz and began recognizing its 3% interest in the entity using the equity method. This is reflected in the accompanying consolidated balance sheets under the caption investment in Senior Mezz. The net assets transferred to WNT and the net decrease in equity are as follows (in thousands):

Investments in real estate	$1,119,302
Restricted cash	13,919
Cash and cash equivalents	38,901
Accounts receivable, net	14,505
Other assets	6,857
Interest rate derivative instrument	293
Deferred financing costs, net	21,049
Deferred franchise fees, net	3,663
Notes payable	(976,000)
Accounts payable and accrued liabilities	(31,591)
Net assets transferred	210,898
Recognition of investment in Senior Mezz	(6,327)
Net decrease in equity	$ 204,571

A receivable from the Company to Senior Mezz of approximately $5,063,000 was included in accounts receivable above and, at December 31, 2014, the related payable from the Company to Senior Mezz was included in payable to affiliate in the accompanying consolidated balance sheets.

As of December 31, 2013, the Company owned 126 hotels located in 35 states, the majority of which operate under franchise agreements with Marriott, Hilton, Hyatt and Intercontinental. As of December 31, 2013, the managers of the hotels are as follows:

	Number of Hotels
Hilton Hotels Corporation	46
Pillar Hotels and Resorts, L.P.	24
McKibbon Hotel Group	21
Huntington Hotel Group	13
Other (represented by four different management companies)	22
	126

As of December 31, 2014, the Company owned 20 hotels located in 13 states, which operated under franchise agreements with Marriott and Hilton. As of December 31, 2014, the managers of these hotels were as follows:

	Number of Hotels
Hilton Hotels Corporation	9
Gateway Lodging Co., Inc.	4
Pillar Hotels and Resorts, L.P.	3
McKibbon Hotel Group	2
Huntington Hotel Group	2
	20

In addition, as of December 31, 2014, the Company owned a 3% interest in Senior Mezz which indirectly owned 106 hotels located in 34 states, which operated under franchise agreements with Marriott, Hilton, Hyatt and Intercontinental. As of December 31, 2014, the managers of these hotels were as follows:

	Number of Hotels
Hilton Hotels Corporation	37
Pillar Hotels and Resorts, L.P.	21
McKibbon Hotel Group	19
Huntington Hotel Group	11
Other (represented by four different management companies)	18
	106

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation

The consolidated financial statements include the accounts of Grace Acquisition I, W2007 Equity LP and subsidiaries of W2007 Equity LP. Because Grace Acquisition I is the general partner of W2007 Equity LP and has control over its management and major operating decisions, the accounts of W2007 Equity LP are consolidated in the consolidated financial statements of Grace Acquisition I. All significant intercompany balances and transactions have been eliminated.

Use of estimates

The Company prepares its financial statements in conformity with accounting principles generally accepted in the United States. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has evaluated subsequent events through May 1, 2015, the date which the financial statements were available to be issued.

Investments in real estate

Real estate investments are carried at depreciated cost net of reduction for impairment. Expenditures for ordinary repairs and maintenance are expensed as incurred. Significant renovations and improvements, which improve or extend the useful life of the assets, are capitalized. Full stock replacements of china, glass, silver, uniforms and linen are capitalized and incidental purchases are expensed as incurred.

Investments in real estate consist of the following (in thousands):

	December 31, 2014	December 31, 2013	December 31, 2012
Land and improvements	$ 50,900	$ 277,497	$ 299,577
Buildings and improvements	258,829	1,159,285	1,253,710
Furniture, fixtures and equipment	—	322,019	324,366
Below market ground leases	—	13,253	13,253
Total cost	309,729	1,772,054	1,890,906
Accumulated depreciation and amortization	(68,899)	(379,957)	(328,484)
Investment in real estate, net	$ 240,830	$1,392,097	$1,562,422

Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets as follows: buildings and improvements over 7.5 to 39 years; land improvements over 15 years; and furniture, fixtures and equipment, including china, glass, silver, uniforms and linen, over 3 to 7 years. Below market ground leases were amortized over the remaining term of the related lease agreements, which ranged from 16 to 52 years. Effective from the exercise of the Purchase Option on April 11, 2014, none of the Company's consolidated hotels are, December 31, 2014, subject to a ground lease. For the years ended December 31, 2014, 2013, 2012 and 2011, the Company recognized depreciation expense, including discontinued operations, of $33,081,000, $85,951,000, $89,170,000 and $82,340,000 respectively.

Assets are classified as held for sale if a disposal plan is in place, actions to achieve the sale have been initiated, a sale is probable and it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Sales of the Company's investments in real estate take a significant amount of time to consummate and many changes in the terms and timing are typical in the process. Accordingly, management does not classify assets as held for sale until a contract is pending, closing is scheduled and the probability of significant changes in terms or timing is insignificant. We evaluate assets held for sale for impairment each reporting period and record them at the lower of their carrying amounts or fair value less costs to sell.

On May 23, 2014, the subsidiaries of Grace I and WNT entered into an agreement to sell their 126 hotels for a combined purchase price of $1.925 billion, subject to certain adjustments, to affiliates of ARC Hospitality. The agreement was subsequently amended and restated on November 11, 2014 to exclude ten hotels from the sale (all ten of which are owned by subsidiaries of WNT), remove several closing contingencies and extend the closing date. The amended and restated agreement provided for the sale of 116 hotels for a combined purchase price of $1.808 billion with closing scheduled on February 27, 2015 (see Note 16). The closing of the sale was subject to lender approvals as well as other customary closing conditions. As of December 31, 2014, the Company concluded that there could be no assurance that the transaction would close as scheduled and, therefore, the real estate investments to be sold were not classified as held for sale as of December 31, 2014. No real estate investments were classified as held for sale as of December 2013 or 2012.

Investment in Senior Mezz

The Company's 3% investment in Senior Mezz is accounted for under the equity method of accounting. The Company initially recognized it pro rata interest in the net assets of Senior Mezz and has also recognized its pro rata interest in Senior Mezz's net income or loss. Management reviews the investment in Senior Mezz for impairment each reporting period. The investment is impaired when its estimated fair value is less than the carrying amount of the investment. Any impairment is recorded in equity in income (loss) from Senior Mezz. No such impairment was recorded for the year ended December 31, 2014.

Fair value measurements

Fair value measurements are market-based measurements, not entity-specific measurements. Fair value measurement assumptions are classified under a hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and management's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Fair value measurements of financial and nonfinancial assets and liabilities are based on (1) the assumptions that market participants would use in pricing the asset or liability, if available, or (2) management's estimates of market participant assumptions.

Certain assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when recording impairment on long-lived assets). The following table

presents nonfinancial assets measured at fair value on a nonrecurring basis as of December 31, 2014, 2013, 2012 and 2011, and related impairment charges recorded (in thousands):

	Level 1	Level 2	Level 3	Total Impairment Write-downs
2014				
Investments in real estate	$ —	$ —	$ —	$ 7,582[1]
Investments in real estate	—	—	30,367	1,454
				$ 9,036
2013				
Investments in real estate	$ —	$ —	$ —	$ 1,757[2]
Investments in real estate	—	—	—	3,297[3]
Investments in real estate	—	—	63,205	22,602
				$ 27,656
2012				
Investments in real estate	$ —	$ —	$ —	$ 1,031[4]
Investments in real estate	—	—	—	21,505[5]
Investments in real estate	—	—	113,015	64,179
				$ 86,715[6]
2011				
Investments in real estate	$ —	$ —	$ 6,518	$ 4,483

(1) This impairment charge was recognized during the three months ended June 30, 2014 based on a fair value (Level 3) of $38,268 as of June 30, 2014.

(2) This impairment charge was recognized during the three months ended June 30, 2013 based on a fair value (Level 3) of $5,352 as of June 30, 2013.

(3) This impairment charge was recognized during the three months ended September 30, 2013 based on a fair value (Level 3) of $6,588 as of September 30, 2013.

(4) This impairment charge was recognized during the three months ended March 31, 2012 based on a fair value (Level 3) of $2,059 as of March 31, 2012.

(5) This impairment charge was recognized during the three months ended September 30, 2012 based on a fair value (Level 3) of $29,629 as of September 30, 2012.

(6) $1,031 is included in income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss for the year ended December 31, 2012.

Management reviews its investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The impairment write-downs recorded in 2014 were the result of the allocated purchase prices of the hotels under contract to sell to ARC Hospitality, which represents management's best estimate of fair values, and in 2013, 2012 and 2011 were the result of unfavorable economic conditions within the markets in which the impaired hotels were located and hotel specific factors that were expected to negatively impact the future operations of the hotels. The assumptions used both in estimating fair values through a discounted cash flow model and the undiscounted cash flow analysis are inherently judgmental and reflect current and projected trends in revenue per available room, operating expenses, capitalization rates, discount rates, and the estimated holding periods for the applicable hotels. If an indicator of potential impairment existed, the hotel was tested for impairment for financial accounting purposes by comparing its carrying value to the estimated future undiscounted cash flows. The amount of the impairment is calculated as the amount by which the carrying value of the hotel exceeds its fair value.

The following table presents quantitative information about significant unobservable inputs used in determining the fair value of the above noted nonfinancial assets ($ in thousands):

2014

Property Type	Fair Value	Valuation Techniques	Unobservable Inputs	Range of Inputs
Hotels (2)	$ 68,635	Discounted cash flows	Discount rate	12%
			Exit price per key	$82 - $125
			Hold period	2 months – 6 months
			Revenue growth	1.55% – 5.00%
			Expense growth	0.81% - 5.10%

2013

Property Type	Fair Value	Valuation Techniques	Unobservable Inputs	Range of Inputs
Hotels (8)	$ 65,876	Discounted cash flows	Discount rate	12%
			Exit price per key	$40 - $75
			Exit capitalization rate	7.25% - 8.00%
			Hold period	1.7 years – 2.3 years
			Revenue growth	(6.72%) – 7.84%
			Expense growth	(5.37%) - 5.68%
Hotel (1)	$ 9,269	Competitive set pricing	Price per key	$100/key

2012

Property Type	Fair Value	Valuation Techniques	Unobservable Inputs	Range of Inputs
Hotels (13)	$144,703	Discounted cash flows	Discount rate	12%
			Exit price per key	$22 - $75
			Exit capitalization rate	7.5% - 8.3%
			Hold period	2.8 years - 3.1 years
			Revenue growth	4.6% - 8.9%
			Expense growth	3.5% - 6.5%

Cash and cash equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less that are not restricted to be cash equivalents. Cash equivalents are placed with reputable institutions and the balances may at times exceed federally insured deposit levels; however, the Company has not experienced any losses in such accounts.

The Company also considers deposits in transit from credit card processors to be cash equivalents.

Accounts receivable and related allowance for doubtful accounts

Accounts receivable consist of amounts owed by guests staying in the hotels as of December 31, 2014, 2013 and 2012 and amounts due from business customers or groups. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of guests to make required payments for services. The allowance is maintained at a level believed adequate to absorb estimated receivable losses. The estimate is based on receivable loss experience, known and inherent credit risks, current economic conditions and other relevant factors including specific reserves for certain accounts. The allowance for doubtful accounts is $53,000, $252,000 and $597,000 as of December 31, 2014, 2013 and 2012, respectively.

Deferred financing costs

Deferred financing costs incurred in connection with the issuance of the notes payable are amortized over the contractual lives of the related notes payable using the straight-line method, adjusted for actual prepayments, which approximates the effective interest method. The respective amortization is included in interest expense and income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss.

Deferred franchise fees

The Company amortizes initial payments for franchises using the straight-line method over the lives of the franchise agreements, which range from 5 to 21 years. The respective amortization is included in depreciation and amortization and income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss.

Inventory

Inventories consist principally of food and beverage products and are stated at the lower of cost (as determined on a first-in, first-out basis) or market value. Inventories are included in other assets in the accompanying consolidated balance sheets.

Preferred stock

The carrying values of Grace Acquisition I's Series B preferred stock and Series C preferred stock are $17.50 and $17.00 per share, respectively, which represent the fair values at the Merger date.

Non-controlling equity purchase option

The non-controlling equity purchase option (Purchase Option) represented the GSMC affiliate's option to purchase a 97% equity interest in one of the Company's wholly owned subsidiaries which indirectly owns 106 of the Company's hotels (as of December 31, 2013, these hotels had a net book value of $1,135,795,000), which Purchase Option has since been acquired by WNT (see Note 7) and was exercised on April 11, 2014 (see Note 1). The initial carrying value of the Purchase Option was the fair value of the Purchase Option at its issuance in June 2009. In February 2012, the Purchase Option was amended and, therefore, the carrying value of the Purchase Option was adjusted to reflect the estimated fair value at the amendment date.

Non-controlling interest

Non-controlling interest represents Grace I's proportionate share (99%) of the equity of W2007 Equity LP as provided for in its partnership agreement. The majority of the Company's activities are conducted by W2007 Equity LP and its subsidiaries, and thus are reflected in non-controlling interest. However, the litigation accrual (see Note 14) has been deemed to relate to Grace Acquisition I and, therefore, is not reflected in non-controlling interest.

Revenue recognition

Revenues include room, food and beverage, and other hotel revenues such as guest telephone charges, equipment rentals, vending income, in-room movie sales, parking and business centers. Revenues from the hotels are recognized when the services are delivered and are recorded net of any sales or occupancy taxes collected from guests.

Non-departmental expenses

Non-departmental expenses include hotel-level general and administrative expenses, advertising and marketing costs, repairs and maintenance, frequent guest programs, franchise fees and utility costs. Non-departmental expenses are expensed as incurred.

Advertising and marketing

Advertising and marketing costs are expensed as incurred or as the advertising takes place. Advertising and marketing costs were $4,936,000, $11,908,000, $10,333,000 and $9,977,000 for the years ended December 31, 2014, 2013, 2012 and 2011, respectively. Included in marketing costs are fees (generally a percentage of room revenue) payable to marketing funds of the franchisors of the hotels.

Interest rate derivative instruments

The Company's derivative transactions consist of interest rate cap agreements entered into to mitigate the Company's exposure to increasing borrowing costs in the event of a rising interest rate environment. The Company has elected not to designate its interest rate cap agreements as cash flow hedges. Therefore, changes in the fair value of the interest rate caps are recorded as unrealized loss on derivatives in the accompanying consolidated statements of operations and comprehensive loss.

The valuations of the interest rate caps are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The cash receipts are based on an expectation of future interest rates using a forward curve that is derived from observable market interest rate curves.

The analysis has incorporated credit valuation adjustments to appropriately reflect the respective counterparty's nonperformance risk in the fair value measurements. Management evaluated the counterparty's nonperformance risk based on the counterparty's most recent credit rating and any changes in credit rating over the past year. In adjusting the fair value of the derivative contract for the effect of nonperformance risk, management has considered the impact of netting and any applicable credit enhancements. Management concluded that the nonperformance risk is insignificant and no adjustment to the value was necessary for this input. Therefore, all inputs used to value the derivatives fall within Level 2 of the fair value hierarchy and the derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Income taxes

Certain transactions of the Company may be subject to accounting methods for income tax purposes which differ from the accounting methods used in preparing these financial statements. Accordingly, the net income or loss of the Company and the resulting balances in the shareholders' equity accounts reported for income tax purposes may differ from the balances reported for those same items in the accompanying consolidated financial statements.

Grace Acquisition I and TRS Holdings (the Taxable Entities) are subject to federal and state income taxes. The Taxable Entities account for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases.

For uncertain tax positions, the Company makes a determination as to whether it is "more likely than not" that a tax position taken, based on its technical merits, will be sustained upon examination, including resolution of any appeals and litigation processes. If the more-likely-than-not threshold is met, the Company measures the related tax position to determine the amount of provision or benefit, if any, to recognize in the financial statements. The Company applies this policy to all tax positions related to income taxes subject to the asset and liability method. The Company files income tax returns in the U.S. federal jurisdiction and various states. If applicable, the Company classifies interest and penalties related to underpayment of income taxes as income tax expense. No income tax examinations are currently in process. As of December 31, 2014, tax years 2011 through 2014 remain subject to potential examination by certain federal and state taxing authorities. There are no amounts related to interest and penalties for the years ended December 31, 2014, 2013, 2012 and 2011, and management has determined that no material unrecognized tax benefits or liabilities exist as of December 31, 2014, 2013 or 2012. The Company does not anticipate any significant changes to unrecognized income tax benefits over the next year.

Concentration of credit risk

As of December 31, 2014, based on total revenues, the Company's hotels are concentrated in Florida (18%), Texas (18%), Washington (12%), Illinois (10%), Georgia (9%), California (7%), and Kentucky (5%).

Segment reporting

The Company considers each of its hotels to be an operating segment, none of which meets the threshold for a reportable segment as prescribed by the authoritative accounting guidance. The Company allocates resources and assesses operating performance based on each individual hotel. Additionally, the Company aggregates these individually immaterial operating segments into one segment using the criteria established by the authoritative accounting guidance, including the similarities of its product offering, types of customers and method of providing service.

Reclassifications

Certain amounts in the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 have been reclassified for discontinued operations. These reclassifications have no effect on the results of operations previously reported.

Recently issued accounting standards

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08 Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity (ASU 2014-08). Under the new guidance, only a disposal of a component that represents a major strategic shift of an organization qualifies for discontinued operations reporting. The guidance also requires expanded disclosures about discontinued operations and new disclosures in regards to individually significant disposals that do not qualify for discontinued operations reporting. This guidance is effective for the first annual period beginning on or after December 15, 2014. Early adoption is permitted, but only for disposals that have not been reported in previously-issued financial statements. The Company elected to early adopt this guidance for the year ended December 31, 2014. During the year ended December 31, 2014, the Company did not have any disposals that represented a strategic shift nor were there any property sales in the current year that would have met the definition of discontinued operations prior to the adoption of the new standard.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. The new standard is effective for the Company on January 1, 2018, but can be early adopted on January 1, 2017. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting. The Company will make additional disclosures upon adoption.

In August 2014, the FASB issued ASU 2014-15 Presentation of Financial Statements – Going Concern. The new guidance establishes management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles in U.S. auditing standards. Specifically, ASU 2014-15 provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued or available to be issued. It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The guidance is effective for the annual periods beginning on or after December 15, 2016; early adoption is permitted. The Company has not adopted ASU 2014-15, however, the Company does not anticipate that the adoption of this standard will have a material impact on the financial position, results of operations and related disclosures.

3. RELATED PARTY TRANSACTIONS:

In April 2014, the asset management agreement between Grace I and Goldman Sachs Realty Management, L.P. (RMD, formerly known as Archon Group, L.P.) was amended and restated (A&R AMA). The A&R AMA is effective through December 31, 2019 and either party may terminate the agreement with 30 days written notice without cause or the payment of a fee. The owner of RMD is an affiliate of the Company.

RMD is paid a monthly fee by the Company for its asset management services. Pursuant to the Modification Agreement discussed in Note 7, the asset management fee was limited to $6,600,000 in 2011 with 5% increases in subsequent years thereafter until the GE Mortgage (as defined in Note 7) has been paid in full. The payment of 50% of the fee is deferred until the Company reaches a quarterly minimum debt yield of 13% or until the GE Mortgage has been paid in full. During periods where the Company has met such minimum yield, the asset management fee payment is limited to then current amounts, not to include previously deferred amounts. In connection with the refinancing of the GE Mortgage as discussed in Note 7, the restriction on the payment of asset management fees terminated. In April 2014, the Company paid $4,650,000 in accrued asset management fees to RMD and RMD forgave $6,708,000 in accrued asset management fees. This forgiveness was recorded as an increase in equity as the indebtedness was forgiven by RMD, an affiliate of the Company. For the years ended December 31, 2014, 2013, 2012 and 2011, RMD earned asset management fees of $3,073,000, $7,276,000, $6,951,000 and $6,539,000, of which $0, $3,638,000, $3,465,000 and $3,300,000 were deferred, respectively. Deferred asset management fees included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets as of December 31, 2014, 2013 and 2012 are $0, $10,403,000 and $6,765,000, respectively. Since Grace I effectively has no operations of its own, Grace I allocated substantially all of the asset management fees to the Company for the years ended December 31, 2014, 2013, 2012 and 2011.

RMD is entitled to receive a disposition fee equal to 0.50% of the adjusted proceeds of $5,000,000 or more and 0.75% of the adjusted proceeds under $5,000,000 received by the Company in connection with the sale of any asset owned by the Company. As of December 31, 2014 and 2013, accrued disposition fees were $361,000 which were incurred in connection with the sale of four hotels during the year ended December 31, 2013.

In addition to the $5,063,000 payable to WNT transferred to the Company in connection with the exercise of the Purchase Option (see Note 1), the Company had a $1.7 million payable to WNT as of December 31, 2014.

As additional compensation, RMD was entitled under the prior agreement to receive an incentive fee of 20% of any distributable cash after all members of Grace I achieved an internal rate of return on their investment of at least 15%, but less than 20%; an incentive fee of 25% of any distributable cash after all members achieved an internal rate of return of 20%, but less than 25%; and an incentive fee of 30% of any distributable cash after all members achieved an internal rate of return of 25%. The A&R AMA removed the provision for the payment of any incentive fees. For the years ended December 31, 2014, 2013, 2012 and 2011, no incentive fees were earned by RMD.

On September 15, 2011, Pillar Hotels and Resorts, L.P. (Pillar) and its subsidiaries were sold to Capstone Management, LLC, an affiliate of InterMountain Management, LLC (InterMountain Management; Pillar Sale). Prior to this sale, Pillar was an affiliate of the Company.

As of December 31, 2014, the Company engaged Pillar as the property manager for 3 hotels and Senior Mezz engaged Pillar as the property manager for 21 hotels. The property management agreements (the PMAs) terminate between June 2018 and February 2019. The PMAs will automatically renew for an additional one year term unless the Company or Pillar elects not to renew the agreement. The Company may terminate the PMAs with 30 days written notice without cause or the payment of a fee.

The Company pays Pillar a monthly hotel management fee generally equal to 2% per annum of gross revenues for each hotel managed. For the 14 Hyatt Place hotels managed by Pillar for Senior Mezz, the monthly hotel management fees are subordinated to a priority return to the Company. For the years ended December 31, 2014, 2013, 2012 and 2011, the Company incurred base management fees of $299,000, $759,000, $705,000 and $668,000 and incentive fees of $11,000, $113,000, $153,000 and $147,000, respectively, which are included in property tax, ground lease, insurance and property management fees and income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss. Of the $815,000 total hotel management fee incurred for the year ended December 31, 2011, $489,000 was earned by Pillar prior to the Pillar Sale.

The Company pays Pillar a fixed monthly accounting fee. The accounting fee was $130,000, $368,000, $371,000 and $360,000 for the years ended December 31, 2014, 2013, 2012 and 2011, respectively, and is included in non-departmental direct hotel expenses and income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss.

The Company also pays Pillar a monthly capital oversight fee generally equal to its costs incurred related to procurement activities surrounding the Company's capital expenditures. The capital oversight fee was $384,000, $727,000, $1,624,000 and $1,222,000 for the years ended December 31, 2014, 2013, 2012 and 2011, respectively. Of the $1,222,000 capital oversight fee incurred in 2011, $900,000 is included in asset management fees and income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss. The 2014, 2013, 2012 and the remaining 2011 capital oversight fees were capitalized to investments in real estate in the accompanying consolidated balance sheets as they represent fees incurred after the Pillar Sale.

In 2011, in accordance with the Secondment Agreement, Pillar seconded the employees of AH 2007 Management to operate the hotels of the Company as well as the hotels of affiliates of the Company. Prior to the Pillar Sale, AH 2007 Management was a subsidiary of the Company. Pillar reimbursed AH 2007 Management for salaries, bonuses and any other compensation or benefit payable to the seconded employees. The Company reimbursed Pillar for such costs related to employees at the Company's hotels, which are included in income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss. In connection with the Pillar Sale, the net assets of AH 2007 Management were acquired by InterMountain Management. See Note 12 for additional disclosure.

As a result of the Pillar Sale, RMD is entitled to an earn-out fee for a portion of Pillar's annual cash flows.

In connection with arranging the financing for the Company upon acquisition in 2007, an affiliate of the Company was paid a fee of $18,000,000. This fee was included in deferred financing costs in the accompanying consolidated balance sheets as of December 31, 2013 and 2012. This fully amortized fee was written-off in connection with the refinancing of the GE Mortgage in April 2014. In 2007, the Company also paid an affiliate of the Company a fee of $10,007,000 for advisory services related to the Merger. This fee is included in the purchase price consideration which was allocated to the assets and liabilities of the Company.

See also Notes 1, 7, 8, 12, 14 and 16 for additional related party transactions.

4. HOTEL MANAGEMENT AGREEMENTS:

As of December 31, 2014, the Company had engaged four additional third party property managers to manage its remaining 17 hotels. The management agreements provide for the payment of base fees (generally based on fixed percentages of the gross revenues of the hotels managed) and incentive fees (generally based on the "gross operating profit" of the hotels managed). For the years ended December 31, 2014, 2013, 2012 and 2011, the Company incurred base management fees of $3,132,000, $7,392,000, $6,968,000 and $6,715,000 and incentive fees of $283,000, $573,000, $726,000 and $1,026,000, respectively, which are included in property tax, ground lease, insurance and property management fees and income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss. The management agreements have remaining terms ranging from one to two years, as of December 31, 2014, and certain management agreements have penalties for early termination.

The Company pays its additional third party property managers a fixed monthly accounting fee. The accounting fee was $736,000, $1,974,000, $1,871,000 and $1,877,000 for the years ended December 31, 2014, 2013, 2012 and 2011, respectively, and is included in non-departmental direct hotel expenses and income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss.

5. RESTRICTED CASH:

As of December 31, 2014, 2013 and 2012, restricted cash consists of the following (in thousands):

	December 31,		
	2014	2013	2012
Required repairs reserve	$ 40	$ 39	$ 227
Debt service reserve	33	21	1,357
Ground rent reserve	—	334	199
Furniture, fixtures and equipment reserve	1,948	4,359	7,174
Real estate taxes reserve	268	6,806	6,943
Interest reserve	61	61	61
Working capital reserve	—	33,859	18,217
Insurance reserve	211	216	210
Operating expense reserve	—	—	824
Other reserves	248	1,154	129
	$2,809	$46,849	$35,341

The above noted reserves are required and controlled by the lenders of the notes payable described in Note 7 and are restricted for specific use. The Company considers all changes in restricted cash to be investing activities in the consolidated statements of cash flows as the cash is invested in interest bearing accounts.

6. OTHER ASSETS:

As of December 31, 2014, 2013 and 2012, other assets consist of the following (in thousands):

	December 31,		
	2014	2013	2012
Prepaid insurance	$407	$1,991	$1,369
Prepaid real estate taxes	85	814	945
Prepaid interest	—	872	879
Utility deposits	20	151	143
Inventory	18	277	298
Capital expenditure deposits	—	122	716
Other	304	2,265	1,198
	$834	$6,492	$5,548

7. NOTES PAYABLE:

The Company has the following notes payable outstanding as of December 31, 2014, 2013 and 2012 (in thousands):

Indebtedness	Maturity Date	Interest Rate	December 31, 2014 Debt Balance	December 31, 2014 Book Value of Collateral	December 31, 2013 Debt Balance	December 31, 2013 Book Value of Collateral	December 31, 2012 Debt Balance	December 31, 2012 Book Value of Collateral
GE Mortgage	Nov. 2014	LIBOR[2], [3] + 6.86%[1]	$ —	$ —	$ 955,266	$1,135,795	$1,014,998	$1,211,662
Mortgages (7 hotels)	Dec. 2016	5.865%	77,212	102,611	78,766	106,659[4]	80,232	111,134[4]
Mortgages (6 hotels)	Oct. 2016	5.650%	24,725	42,363	25,582	46,300[4]	43,280	101,911[4]
Mortgages (6 hotels)	Dec. 2015	5.440%	48,984	85.412	50,772	92.590[4]	52,463	95,060[4]
Junior subordinated debt	Jul. 2035	LIBOR[3] + 2.85%	50,000	—	50,000	—	50,000	—
Mortgage A	Mar. 2015	5.770%	3,726	10,444	3,866	10,753[4]	3,999	14,319[4]
Mortgage B	Dec. 2014	5.390%	—	—	—	— [4]	4,620	28,336[4]
			$204,647	$ 240,830	$1,164,252	$1,392,097	$1,249,592	$1,562,422
Fair value adjustment			(1,521)		(2,527)		(4,035)	
			$203,126		$1,161,725		$1,245,557	

(1) Weighted average spread over LIBOR was 6.86% and 6.29% as of December 31, 2013 and 2012, respectively

(2) LIBOR floor of 1%

(3) The 90-day LIBOR rates were 0.26%, 0.25% and 0.31% as of December 31, 2014, 2013 and 2012, respectively

(4) The equity and excess cash flows after the mortgages have been satisfied were pledged as additional collateral on the GE Mortgage

In October 2007, the Company entered into a loan agreement (GE Mortgage) pursuant to which the Company issued a $1,800,000,000 note to GSMC. Under its rights within the GE Mortgage, GSMC componentized the loan in February 2008 for purposes of marketing and selling the individual components of the loan. In connection with the componentization, the Company paid a fee of $9,850,000 to GSMC. After the componentization, the GE Mortgage was composed of a mortgage loan (Mortgage Loan) and seven mezzanine loans (Mezzanine Loans).

In June 2009, the Company entered into a series of recapitalization transactions as follows:

- Whitehall funded $175,000,000 of its $350,000,000 payment guaranty which reduced the outstanding balance under the Mortgage Loan. The Company recorded this as a deemed contribution and a corresponding reduction of its outstanding indebtedness. As of September 2009, Whitehall satisfied its conditions to fully extinguish the payment guaranty.
- The First Mezzanine Borrower, a wholly owned subsidiary of the Company, made a proportionate and voluntary prepayment of $15,231,000 to reduce the outstanding balance under the First Mezzanine Loan.
- GSMC cancelled $544,841,000 of indebtedness outstanding under the Second, Third, Fourth, Fifth, Sixth and Seventh Mezzanine Loans, resulting in an increase in shareholders' equity of $260,254,000 on the forgiveness of debt. The forgiveness of debt was recorded as an increase in shareholders' equity as the indebtedness was forgiven by GSMC, an affiliate of the Company.
- An affiliate of GSMC was granted the Purchase Option. Pursuant to its terms, the Purchase Option was not effective or exercisable until both the Mortgage Loan and the First Mezzanine Loan were paid in full. Whitehall and GSMC's affiliate agreed to a tiered sharing agreement with respect to distributions received by GSMC's affiliate under the Purchase Option.

Additionally, the Company made a voluntary principal payment of $5,000,000 plus interest in September 2009. This payment was proportionately allocated between the Mortgage Loan and the First Mezzanine Loan. As a result of these transactions, the outstanding balance under the Mortgage Loan and Mezzanine Loans was reduced by $740,072,000 to $1,039,808,000 as of December 31, 2009.

The Purchase Option originally expired in June 2015; in February 2012, the Purchase Option was amended to expire in July 2021, or such other later date if the maturity date of the Company's debt is further extended. In July 2012, WNT acquired the Purchase Option.

On April 11, 2014, subsidiaries of Senior Mezz refinanced the GE Mortgage with a new $976 million loan originated by German American Capital Corporation (the GACC Mortgage and Mezzanine Loans). In connection with the refinancing, the "cash trap" under the GE Mortgage and the cash flow pledge of the 20 hotels which were not collateral on the GE Mortgage ceased. As a result of WNT's exercise of the Purchase Option and the deconsolidation of Senior Mezz and its subsidiaries, the GACC Mortgage and Mezzanine Loans are not included in the Company's consolidated financial statements as of December 31, 2014.

As described below, the Company recognized interest on the GE Mortgage under the effective interest method. In connection with the repayment of the GE Mortgage on April 11, 2014, the Company wrote-off the interest accrued under the effective interest method, but which was not due or payable to the lender. This write-off resulted in a gain of $13,199,329, which is included in gain on extinguishment of debt in the accompanying consolidated statements of operations and comprehensive loss.

During the year ended December 31, 2014, the Company paid approximately $21,049,000 of deferred financing costs, of which approximately $3,904,000 was paid to GSMC in connection with the origination of the GACC Mortgage and Mezzanine Loans. These deferred financing costs were transferred to WNT in connection with its exercise of the Purchase Option.

In December 2010, the Company entered into a modification of its existing loan agreement under the GE Mortgage (the Modification Agreement). The weighted average interest rate of the GE Mortgage was 90-day LIBOR, with a 1% LIBOR floor plus 6.86%, which was 7.86% as of December 31, 2013. In December 2010, the Company began recognizing interest expense on an effective yield basis through the anticipated maturity in November 2015. The effective yield was approximately 6.96% and 6.98% as of December 31, 2013 and 2012, respectively.

In accordance with the Modification Agreement, substantially all of the cash flows from the hotels were directed to accounts controlled by GE. The Modification Agreement also specified certain limited uses for the cash flow "trapped" by GE. Annually in August, all remaining cash in the working capital reserve account controlled by GE in excess of a specified amount, as defined in the Modification Agreement, were used to pay-down the Mortgage Loan. In August of 2013, 2012 and 2011, the Company made pay-downs on the Mortgage Loan of $24,312,000, $18,873,000 and $10,920,000, respectively. As described below, the net proceeds from the sale of three individually mortgaged hotels were used to pay down $46,290,000 of the GE Mortgage in November 2013.

In accordance with the Modification Agreement, First Mezzanine Loan debt service was deferred and capitalized on an annual basis at the end of each First Mezzanine Loan year until the Company achieves a specified debt yield. Upon satisfaction of the specified debt yield, only the current First Mezzanine Loan debt service due would be payable, with the deferred and capitalized debt service due upon maturity. During the years ended December 31, 2013, 2012 and 2011, $10,870,000, $9,070,000 and $7,772,000, respectively, of the First Mezzanine Loan debt service was capitalized to notes payable in the accompanying consolidated balance sheets.

In December 2013, GSMC purchased two tranches of the GE Mortgage totaling $25,000,000. The interest earned by GSMC on their debt investment was $552,000 and $27,000 for the years ended December 31, 2014 and 2013, respectively. During the years ended December 31, 2012 and 2011, GSMC earned interest of $0 and $2,038,000, respectively, under their debt investments in the Mortgage Loan and the First Mezzanine Loan.

In August 2012, the Company sold one of its hotels collateralized under the GE Mortgage. The net proceeds from the sale of the hotel were used to pay down $2,255,000 of the GE Mortgage. The Company recognized a net gain of $254,000 on this transaction, which is included in income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss.

In December 2011, the Company sold one of its hotels collateralized under the GE Mortgage. The proceeds from the sale of the hotel were used to pay down $813,000 of the GE Mortgage. The Company recognized a net loss of $357,000 on this transaction, which is included in income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss.

In November 2006, Equity completed an aggregate of $95,000,000 in collateralized financing under eight non-recourse, individual loan agreements. Each loan bears interest at a fixed rate of 5.865% per annum, with principal and interest payments due monthly until maturity on December 1, 2016, based on a 30-year amortization schedule. The Company assumed these loans in connection with the Merger. Under the loan agreements, if the collateralized property does not maintain a certain debt service coverage ratio (DSCR) or the Company does not spend an amount greater than or equal to 4% of that property's operating revenues on furniture, fixtures and equipment (FF&E) expenditures for the first six years of the loan, then for the trailing five years annually thereafter, the Company will be required to fund an additional monthly amount into a lender controlled FF&E reserve from the point of noncompliance. In September

2010, the Company failed to make its required monthly debt service payments under one of the individual loan agreements, which was a technical event of default under the loan agreement. Shortly thereafter, the Company was officially noticed of the default by its lender and in September 2011, the lender effectuated a foreclosure sale whereby the collateralized property title transferred to the lender and the Company was relieved of its obligations under the loan agreement. The Company recognized a net gain of $3,679,000 on this transaction, which is included in income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss.

In September 2006, Equity completed an aggregate of $50,000,000 in collateralized financing under nine non-recourse, individual loan agreements. Each loan bears interest at a fixed rate of 5.65% per annum, with principal and interest payments due monthly until maturity on October 1, 2016, based on a 25-year amortization schedule. The Company assumed these loans in connection with the Merger. Beginning February 2013, the Company failed to make its required monthly debt service payments under one of the individual loan agreements, which was a technical event of default under the loan agreement. In April 2013, the Company sold the collateralized property under this loan agreement. The proceeds of $4,250,000 from the sale of the hotel were used to pay down the full balance of the loan, as well as accrued and default interest. The Company recognized a net loss of $224,000 on this transaction, which included a net prepayment penalty of $352,000. The net loss is included in income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss. In November 2013, the Company sold two of its hotels collateralized under two of the individual loan agreements. A portion of the $42,500,000 in net proceeds was used to purchase defeasance securities to fully relieve the Company's obligations under the two individual loan agreements. The Company recognized a combined net loss of $1,976,000 related to the defeasance premiums, which is included in income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss. The remaining net proceeds of $26,613,000 were used to pay down the GE Mortgage. The Company recognized a combined net loss of $3,271,000 on the sale of these two hotels, which is included in income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss.

In November 2005, Equity completed an aggregate of $73,500,000 in collateralized financing under seven non-recourse, individual loan agreements. Each loan bears interest at a fixed rate of 5.44% per annum, with principal and interest payments due monthly until maturity on December 1, 2015, based on a 25-year amortization schedule. The Company assumed these loans in connection with the Merger. Under the loan agreements, if the collateralized property does not maintain a certain DSCR, the Company's net operating cash flows will be "trapped." In addition, beginning in January 2011 on an annual basis, if the Company does not spend an amount greater than or equal to 4% of that property's operating revenues on FF&E expenditures for the preceding five years of the loan, the Company will be required to fund an additional monthly amount into the FF&E reserve from the point of noncompliance. In August 2010, the Company failed to make its required monthly debt service payments under one of the individual loan agreements, which was a technical event of default under the loan agreement. Shortly thereafter, the Company was officially noticed of the default by its lender and in August 2011, the lender effectuated a foreclosure sale whereby the collateralized property title transferred to the lender and the Company was relieved of its obligations under the loan agreement. The Company recognized a net gain of $3,809,000 on this transaction, which is included in income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss.

In November 2013, the Company sold its lone hotel collateralized under Mortgage B. A portion of the $25,000,000 in net proceeds was used to purchase defeasance securities to fully relieve the Company's obligations under the individual

loan agreement. The Company recognized a loss of $319,000 related to the defeasance premium, which is included in income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss. The remaining net proceeds of $19,677,000 were used to pay down the GE Mortgage. The Company recognized a net loss of $2,747,000 on the sale of this hotel, which is included in income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss.

In connection with the Merger, the assumption of the loans of Equity described above required the carrying value of the notes payable to be adjusted to the estimated fair value of these obligations at October 25, 2007, the date of the Merger. As a result, the Company recorded a fair value adjustment reducing the value of these loans by $10,196,000. This fair value adjustment is being accreted over the terms of the respective loans as an increase to interest expense based on the effective interest method. The Mortgage Loan and First Mezzanine Loan were recorded at cost.

In June 2005, Equity issued $50,000,000 in junior subordinated debt in a private placement that will mature in July 2035. The junior subordinated debt bore interest at 6.93% per annum for five years and beginning in July 2010, bears interest at 90-day LIBOR plus 2.85% per annum through maturity. Interest on the junior subordinated debt is due quarterly. The junior subordinated debt may be prepaid after July 2010 without penalty. The Company assumed the junior subordinated debt in connection with the Merger, which is recorded at cost.

Substantially all of the debt is collateralized by first mortgages on the hotels. The Company does not have any notes payable that contain cross-default provisions. The terms of the debt, except the GE Mortgage and the junior subordinated debt, generally require prepayment penalties if repaid prior to maturity or contain a defeasance clause whereby the cash flow from purchased defeasance investments would substitute as collateral for the mortgage.

As of December 31, 2013, scheduled principal maturities associated with the notes payable are as follows (in thousands):

Year Ending December 31,	Amount
2014	$ 959,605
2015	55,266
2016	99,381
2017	—
2018	—
Thereafter	50,000
	$1,164,252

As of December 31, 2014, scheduled principal maturities associated with the notes payable are as follows (in thousands):

Year Ending December 31,	Amount
2015	$ 55,266
2016	99,381
2017	—
2018	—
2019	—
Thereafter	50,000
	$204,647

8. PREFERRED STOCK:

In connection with the Merger, Grace Acquisition I issued 3,450,000 shares of 8.75% Series B cumulative preferred stock and 2,400,000 shares of 9.00% Series C cumulative preferred stock. The preferred shares were issued to holders of Equity's preferred stock and had terms essentially identical to the Equity preferred stock. The Series B preferred stock may be redeemed at $25.00 per share plus accrued but unpaid dividends at the election of Grace Acquisition I.

The Series C preferred stock may be redeemed at $25.00 per share plus accrued but unpaid dividends at the election of Grace Acquisition I, on or after February 15, 2011. The Series B preferred stock and Series C preferred stock have no stated maturity, sinking fund or mandatory redemption and are not convertible into any other securities of Grace Acquisition I.

In February 2008, Grace Acquisition I also issued 125 shares of 8% Series D cumulative preferred stock at $250 per share to GS.

In May 2008, Grace Acquisition I ceased dividend payments to its preferred shareholders due to the "cash trap" under the GE Mortgage. The GACC Mortgage and Mezzanine Loans do not currently restrict the use of the Senior Mezz subsidiaries' cash to the same extent that the GE Mortgage did and the pledge of the cash flow from the Company's 20 hotels was terminated. As of December 31, 2014 and 2013, Grace Acquisition I had $86,330,000 and $73,380,000, respectively, in accumulated, undeclared preferred stock dividends. Since at least six quarters of dividends on the Series B preferred stock and Series C preferred stock are outstanding, the preferred shareholders are entitled to elect two members to the board of directors of Grace Acquisition I. Grace Acquisition I has attempted to hold three meetings to elect the new board members; however, at each meeting a quorum was not achieved and, therefore, an election did not occur.

In August 2012, PFD Holdings, LLC (PFD Holdings), an affiliate of Whitehall, purchased 2,018,250 shares of Series B preferred stock and Series C preferred stock. In August 2013, PFD Holdings purchased an additional 1,422,485 shares of Series B preferred stock and Series C preferred stock. In December 2014, PFD Holdings purchased 10,000 shares of Series B preferred stock and Series C preferred stock. As a result of these purchases, PFD Holdings owns 59.0% of the outstanding Series B preferred stock and Series C preferred stock.

Grace Acquisition I's charter provides for the issuance of up to 10,000,000 shares of preferred stock in one or more series and its board will establish the number of shares in each series and fix the designation, powers, preferences, and rights of each such series and the qualifications, limitations or restriction thereof.

9. OPERATING LEASES:

As of December 31, 2013, nine hotels were subject to ground lease agreements which required monthly payments with increases in rent throughout the term of the leases and have remaining terms ranging from 6 to 49 years (excluding available lessee extension options). The controlling interest in the Senior Mezz hotels (including the nine subject to ground lease agreements) was acquired by WNT as a result of the exercise of the Purchase Option in April 2014. Ground lease expense was recognized on a straight-line basis over the lives of the respective ground leases. The ground lease expense was $447,000, $1,590,000, $1,610,000 and $1,952,000 (including $73,000, $262,000, $284,000 and $305,000 of amortization of the below market ground leases) for the years ended December 31, 2014, 2013, 2012

and 2011, respectively, and is included in property tax, ground lease, insurance and property management fees and income (loss) from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss. As of December 31, 2013, the estimated amortization expense of the below market ground leases was $262,000 for each of the five succeeding years. Approximate future ground lease payments under non-cancelable ground leases (assuming extension options will not be exercised) as of December 31, 2013, were as follows (in thousands):

Year Ending December, 31	Amount
2014	$ 843
2015	872
2016	876
2017	903
2018	917
Thereafter	7,899
	$12,310

10. FAIR VALUE OF FINANCIAL INSTRUMENTS:

As cash and cash equivalents and restricted cash have maturities of less than three months, the carrying values of cash and cash equivalents and restricted cash approximate fair value (Level 1 of the fair value hierarchy). The carrying values of accounts receivable, accounts payable and accrued liabilities and accrued interest payable approximate fair value due to the short maturity of these instruments (Level 2 of the fair value hierarchy).

The fair value of the Company's notes payable is approximately $184 million, $1.2 billion and $1.3 billion as of December 31, 2014, 2013 and 2012, respectively. The fair value of the Company's notes payable has been estimated based on a discounted cash flow analysis using a discount rate representing the Company's estimate of the rate that would be used by market participants (Level 2 of the fair value hierarchy). Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values.

The fair value of the interest rate derivative instruments change during the life of the instruments as a function of maturity, interest rates and the credit standing of the instrument seller. The fair value of the Company's interest rate

derivative instruments and the effects of these derivative instruments on the consolidated statements of operations and comprehensive loss are as follows (in thousands):

Instrument	Notional Amount	Cap Rate	Maturity	Fair Value at December 31, 2013	Fair Value at December 31, 2012	Loss Recognized in Net Loss for the Year Ended December 31, 2014	Loss Recognized in Net Loss for the Year Ended December 31, 2013	Loss Recognized in Net Loss for the Year Ended December 31, 2012	Loss Recognized in Net Loss for the Year Ended December 31, 2011
Interest rate cap	946,557	4.50%	11/03/12	$—	$—	$—	$—	$—	$401
Interest rate cap	1,005,928	4.50%	11/03/13	—	—	—	—	35	—
Interest rate cap	990,686	4.50%	11/03/14	—	—	—	57	—	—
				$—	$—	$—	$ 57	$ 35	$401

The Company's interest rate cap matured on November 3, 2014.

11. INCOME TAXES:

The following table reconciles the Taxable Entities' income tax benefit at statutory rates to the actual income tax benefit recorded (in thousands):

	Year Ended December 31, 2014	2013	2012	2011
Income tax benefit at federal statutory rate	$(7,164)	$ 444	$ 172	$ 751
State income tax benefit, net of federal income tax benefit	(4,125)	49	19	84
Nondeductible book accrual	9,531	—	—	—
Section 731a capital gain	9,077	—	—	—
Other	813	251	527	(75)
Increase in valuation allowance	(8,132)	(744)	(718)	(760)
Total income tax benefit	$ —	$ —	$ —	$ —

At December 31, 2014, 2013 and 2012, the Taxable Entities' deferred tax assets, deferred tax liabilities and related valuation allowances consist of the following (in thousands):

	December 31,		
	2014	2013	2012
Federal and state net operating losses	$ 31,422	$ 43,210	$ 42,717
Tax property basis greater than book basis	3,394	3,336	3,092
Nondeductible book accrual	9,531	—	—
Section 731a capital gain	9,077	—	—
Other deferred tax assets	647	201	201
Total gross deferred tax assets	54,071	46,747	46,010
Forgiveness of debt treatment	(1,324)	(2,119)	(2,119)
Depreciation	(767)	(780)	(786)
Other deferred tax liabilities	(39)	(39)	(39)
Total gross deferred tax liabilities	(2,130)	(2,938)	(2,944)
Net deferred tax asset	51,941	43,809	43,066
Valuation allowance	(51,941)	(43,809)	(43,066)
	$ —	$ —	$ —

As of December 31, 2014, 2013 and 2012, the Company has recorded a valuation allowance equal to 100% of the net deferred tax asset due to the uncertainty of realizing the benefit of these assets. Accordingly, no provision or benefit for income taxes is reflected in the accompanying consolidated statements of operations and comprehensive loss. As of December 31, 2014, the Taxable Entities had net operating loss carryforwards for federal income tax purposes of $89,242,000, which begin to expire in 2021, and are available to offset future taxable income, if any, through 2034.

For the year ended December 31, 2014, Grace Acquisition I incurred federal alternative minimum tax expense of $480,000. The Company conducts business in certain states which have taxes with characteristics of an income tax. The Company incurred $473,000, $289,000, $286,000 and $389,000 for such tax for the years ended December 31, 2014, 2013, 2012 and 2011, respectively. Both of these items are included in corporate overhead in the accompanying consolidated statements of operations and comprehensive loss.

12. DISCONTINUED OPERATIONS:

In connection with the Pillar Sale, the net assets of AH 2007 Management were acquired by InterMountain Management. In addition, during 2011, the lender of two of the Company's hotels effectuated a foreclosure sale whereby the collateralized property title transferred to lender and the Company was relieved of its obligations under the loan agreement and the Company sold a hotel through the normal course of business. Additionally, during 2013 and 2012, the Company sold four and one hotels, respectively, through the normal course of business. The operating results of AH 2007 Management, the two hotels sold via foreclosure sale and the six hotels sold through the normal course of business have been reported as discontinued operations in the consolidated statements of operations and comprehensive loss. As the Company has a 3% interest in Senior Mezz and therefore has continuing involvement as of December 31, 2014, the deconsolidation of Senior Mezz on April 11, 2014 is not reported as discontinued operations for the year ended December 31, 2014.

The following table summarizes the operating results of the discontinued operations (in thousands):

	Year Ended December 31,			
	2014	2013	2012	2011
Hotel revenues	$—	$16,105	$ 17,805	$ 32,045[1]
Direct hotel expenses	—	(9,082)	(11,142)	(14,148)
Property taxes, ground lease, insurance and property management fees	—	(1,462)	(1,468)	(2,352)
Corporate overhead	—	(125)	(143)	(10,614)[1]
Asset management fees	—	(213)	(303)	(402)
Depreciation and amortization	—	(3,212)	(4,520)	(3,994)
Impairment charge	—	—	(1,031)	—
Net gain (loss) on extinguishment of debt	—	(2,647)[3]	—	7,488
Net gain (loss) on sale of investments in real estate	—	(5,890)	254	(357)
Interest expense [2]	—	(1,578)	(1,508)	(2,949)
Other income	—	23	180	3
Income (loss) from discontinued operations	$—	$ (8,081)	$ (1,876)	$ 4,720
(Income) loss from discontinued operations attributable to non-controlling interest	—	8,000	1,857	(4,673)
Income (loss) from discontinued operations available to common shareholders	$—	$ (81)	$ (19)	$ 47

(1) Hotel revenues and corporate overhead include $10,301 of payroll related reimbursements and related costs for the year ended December 31, 2011 received from an affiliate of the Company.

(2) The GE Mortgage required principal payments in conjunction with the sale of a hotel based on an allocated loan amount (ALA) per hotel and the effective yield. The Company allocates interest expense to discontinued operations based on the ALA of each sold hotel. See Note 7 for principal payments made with respect to the hotels included in discontinued operations.

(3) Represents the defeasance premiums incurred to relieve the Company of its obligations under three of its individual loan agreements.

As of December 31, 2012, the four hotels sold in 2013 had investments in real estate of $78,481,000, including net deferred franchise fees of $185,000, and an aggregated loan balance of $21,508,000.

13. PROPERTY TAX, GROUND LEASE, INSURANCE AND PROPERTY MANAGEMENT FEES:

For the years ended December 31, 2014, 2013, 2012 and 2011, property tax, ground lease, insurance and property management fees from continuing operations consists of the following (in thousands):

	Year Ended December 31,			
	2014	2013	2012	2011
Property tax	$ 7,120	$17,380	$17,201	$15,880
Ground lease	447	1,590	1,581	1,530
Insurance	1,772	4,261	4,045	3,934
Property management fees	3,725	8,425	8,193	8,096
	$13,064	$31,656	$31,020	$29,440

14. COMMITMENTS AND CONTINGENCIES:

The Company is involved in various legal proceedings and disputes arising in the ordinary course of business. The Company does not believe that the disposition of such legal proceedings and disputes will have a material adverse effect on the financial position, continuing operations or cash flows of the Company, other than as disclosed herein.

In September 2013, a putative class action lawsuit (the Johnson Lawsuit) was filed in the Circuit Court of Shelby County, Tennessee by several current and former shareholders of the Series B and C preferred shares of Grace Acquisition I. The complaint, which alleges, among other things, breach of contract and breach of fiduciary duty that resulted in the loss of Series B and Series C preferred share value, names Grace Acquisition I, members of Grace Acquisition I's board of directors, PFD Holdings, LLC, GS Group, Whitehall, Goldman Sachs Realty Management, L.P. and Grace I as defendants. Shortly after the filing of the Johnson Lawsuit, the defendants removed the case to Federal Court. In November 2013, the plaintiffs filed a motion to remand the case back to the Circuit Court, which the defendants have opposed. On July 28, 2014, the Federal Court denied the plaintiffs' motion to remand. In addition, in January 2014, the defendants also filed a motion to dismiss the Johnson Lawsuit and the motion was fully briefed on April 24, 2104. In October 2013, a similar lawsuit was filed by another plaintiff in the same Circuit Court (the Dent Lawsuit), alleging similar breaches against several of the same defendants named in the Johnson lawsuit, in addition to a former member of the Company's board of directors. In January 2014, the plaintiffs and defendants in the Dent Lawsuit agreed to stay that case in favor of proceedings in the aforementioned Johnson Lawsuit. In August 2014, the Company and the other

defendants entered into a non-binding memorandum of understanding with respect to a settlement of the claims raised in the Johnson Lawsuit. On August 22, 2014, the parties notified the Court of the proposed settlement, and the Court agreed that the parties would no longer be subject to pending deadlines in the current scheduling order. On September 2, 2014, in light of the proposed settlement, defendants filed a motion to withdraw their motion to dismiss without prejudice to renew that motion later. The Court granted the motion. The parties submitted the proposed settlement stipulation and related papers to the Court for approval on October 9, 2014, and filed additional papers in support of settlement on December 3, 2014 and March 20, 2015. The stipulation was preliminarily approved by the Court on April 30, 2015 and remains subject to final approval by the Court. The stipulation of settlement generally provides for the following: (1) the effectuation of a merger that will result in exchange of $26.00 in cash for each share of Series B and C stock outstanding; (2) the establishment of a $6 million fund to be distributed pursuant to a plan of allocation to sellers of the Series B and C preferred stock; and (3) an award of $4 million in counsel fees, subject to approval by the Court. Therefore, during the year ended December 31, 2014, the Company accrued $24.25 million related to the agreement which is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets and in contingent loss on litigation settlement in the consolidated statements of operations and comprehensive loss. The Company anticipates funding the settlement with cash on hand or, if necessary, funding from Whitehall. The Company expects that the settlement of the Johnson Lawsuit, if approved, will result in the release of those claims asserted in the Dent Lawsuit. Ongoing defense costs will be expensed as incurred.

As of December 31, 2014, all of the wholly owned hotels and hotels owned through the Company's 3% interest in Senior Mezz are operated under franchise agreements and are licensed as Hampton Inn (43 hotels), Residence Inn (25), Courtyard (17), Hyatt Place (15), Homewood Suites (10), SpringHill Suites (7), Hilton Garden Inn (3), Fairfield Inn & Suites (2), Holiday Inn (1), Embassy Suites (1), Holiday Inn Express (1) and TownePlace Suites (1).

The franchise agreements generally require the payment of fees based on a percentage of hotel room revenue. Under the franchise agreements, the Company is periodically required to make capital improvements to the hotels in order for them to meet the franchisors' brand standards. Additionally, under certain loan covenants, the Company is obligated to fund 4% to 5% of total hotel revenues to a separate room renovation account for the ongoing replacement or refurbishment of furniture, fixtures and equipment at the hotels.

Whitehall has guaranteed up to $6,495,000 of the Company's obligations under the franchise agreements with certain franchisors.

The Company maintains property insurance coverage for catastrophic losses such as hurricanes, earthquakes or floods. For such catastrophic losses, the Company may have higher deductibles or increased self-insurance risk if certain criteria are met, ultimately increasing the potential risk of loss.

In September 2007, a putative class action lawsuit was filed in the Circuit Court of Shelby County, Tennessee (the Circuit Court) on behalf of the former Series B and Series C preferred shareholders of Equity Inns alleging breaches of fiduciary duty against Equity Inns' former directors. This complaint does not name Equity Inns or any corporate entity as a defendant. In February 2008, the Circuit Court denied the defendants' motion to dismiss the complaint. In April 2010, the Circuit Court granted the plaintiffs' motion for class certification, which was ultimately appealed and vacated by the Tennessee Court of Appeals and remanded back to the Circuit Court. During the second quarter of 2012, the plaintiffs filed a second amended complaint and a new motion for class certification. In April 2013, the Circuit Court granted the new motion and certified a class and three subclasses. The defendants appealed the Circuit Court's ruling, and in May 2014 the Tennessee Court of Appeals vacated the Circuit Court's order certifying a class and remanded the case to the

Circuit Court for further proceedings consistent with its opinion. The Company does not believe that the disposition of such legal proceedings and disputes will have a material adverse effect on the financial position, continuing operations or cash flows of the Company.

15. SUMMARIZED FINANCIAL INFORMATION ON SENIOR MEZZ:

The following tables summarize the condensed consolidated balance sheet as of December 31, 2014 and the condensed consolidated statement of operations for the period from April 10, 2014 to December 31, 2014 of Senior Mezz (in thousands):

	December 31, 2014
Investments in real estate, net	$1,040,039
Other assets	134,395
Total assets	$1,174,434
Notes payable	$ 976,000
Other liabilities	34,458
Total liabilities	1,010,458
Members' equity	159,056
Non-controlling interest	4,920
Total liabilities and equity	$1,174,434

	Period ended December 31, 2014
Total hotel revenues	$ 278,733
Total operating expenses	294,074
Operating loss	(15,341)
Interest expense	(31,990)
Other, net	(227)
Net loss	(47,558)
Net loss attributable to non-controlling interests	1,429
Net loss attributable to the controlling interests	$ (46,129)

16. SUBSEQUENT EVENTS:

In January 2015, the action commenced in September 2007 against Equity Inns' former directors was voluntarily dismissed.

On February 27, 2015, 116 hotel assets, of which 20 were owned by the Company, were sold to affiliates of ARC Hospitality for a combined purchase price of $1.808 billion, of which $347 million related to the Company.

In the sale, the Company received approximately $22.2 million in cash subject to a post-closing adjustment to reflect actual proration of certain operating items. The Company's subsidiaries were issued preferred equity interests with an initial capital balance of approximately $99.8 million in a newly-formed Delaware limited liability company, ARC Hospitality Portfolio II Holdco, LLC, which is the indirect owner of the 20 hotels sold by the Company.

Also in the sale, Senior Mezz received approximately $106.0 million in cash subject to a post-closing adjustment to reflect actual proration of certain operating items. Senior Mezz was issued preferred equity interests with an initial capital balance of approximately $347.3 million in a newly-formed Delaware limited liability company, ARC Hospitality Portfolio I Holdco, LLC, which is the indirect owner of the 96 hotels sold by Senior Mezz.

The buyers assumed approximately $903.9 million of existing mezzanine and mortgage indebtedness of Senior Mezz which indebtedness is related to the 96 hotels sold by Senior Mezz. Selling costs totaled approximately $46.8 million, of which $18.3 million related to the Company, and the carrying value of the Company's hotels at the time of the sale was approximately $240.2 million.

W2007 Equity LP, WNT and Whitehall, an affiliate of GS Group, GS and GSMC, engaged GS and Deutsche Bank Securities Inc. (DB) to provide advisory services in connection with a potential sale or other transaction relating to the 126 hotels. As a result of that engagement, upon consummation of the sale of the Portfolio, GS and DB were paid, in the aggregate, an advisory fee of 1.10% of the aggregate consideration paid to the Sellers. GS and DB split the advisory fee 60% and 40%, respectively, resulting in a payment of $12.0 million to GS of which $2.3 million was paid by the Company and is included in selling costs described above.

On March 25, 2015, subsidiaries of Senior Mezz entered into an agreement to sell its remaining 10 hotels for $100 million. The agreement has customary closing conditions and closing is currently scheduled for June 8, 2015. There can be no assurance as to whether or when the sale will close, as to the actual proceeds that will be realized if it does close or as to what the assets might ultimately sell for in an alternate transaction if the pending transaction does not close. Even if the transaction does close, there can be no assurance as to when a distribution from such sale proceeds will be received by the Company.

17. QUARTERLY FINANCIAL DATA (unaudited):

	2014 Quarter Ended			
	31-Mar	30-Jun	30-Sep	31-Dec
	(in thousands)			
Total revenue	$107,429	$ 33,233	$ 20,763	$ 18,202
Total operating expenses	95,779	34,906	18,078	19,132
Operating income (loss)	11,650	(1,673)	2,685	(930)
Net loss attributable to the Company	(219)	(24,402)	(774)	(1,885)

	2013 Quarter Ended			
	31-Mar	30-Jun	30-Sep	31-Dec
	(in thousands)			
Total revenue	$100,247	$114,854	$112,944	$100,506
Total operating expenses	92,222	98,213	102,167	116,866
Operating income (loss)	8,025	16,641	10,777	(16,360)
Net loss attributable to the Company	(461)	(129)	(320)	(892)

	2012 Quarter Ended			
	31-Mar	30-Jun	30-Sep	31-Dec
	(in thousands)			
Total revenue	$ 98,560	$109,412	$106,662	$ 95,213
Total operating expenses	89,332	94,407	118,566	157,555
Operating income (loss)	9,228	15,005	(11,904)	(62,342)
Net loss attributable to the Company	(579)	(121)	(632)	(503)

SCHEDULE III

W2007 Grace Acquisition I, Inc.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2014
(dollars in thousands)

			Initial cost		Costs capitalized subsequent to acquisition [1]		Gross carrying amount at close of period					
Hotel property	Location	Encum-brances	Land and improve-ments	FF&E and buildings and improve-ments	Land and improve-ments	FF&E and buildings and improve-ments	Land and improve-ments	FF&E and buildings and improve-ments	Total	Accumulated depreciation	Acquisition date	Life upon which depreciation is computed
Courtyard	Carlsbad, CA	13,687	4,581	29,150	(987)	(10,009)	3,594	19,141	22,735	(2,761)	10/2007	3 - 39 years
Courtyard	Dalton, GA	4,341	1,566	8,969	461	1,220	2,027	10,189	12,216	(2,551)	10/2007	3 - 39 years
Courtyard	Houston, TX	16,787	4,534	22,921	(906)	(7,677)	3,628	15,244	18,872	(4,594)	10/2007	3 - 39 years
Hampton Inn	Alcoa, TN	2,595	1,676	6,415	(1,157)	(1,791)	519	4,624	5,143	(2,198)	10/2007	3 - 39 years
Hampton Inn	Austin, TX	2,899	2,173	8,532	421	2,788	2,594	11,320	13,914	(4,199)	10/2007	3 - 39 years
Hampton Inn	College Station, TX	3,559	2,026	7,330	369	3,075	2,395	10,405	12,800	(3,954)	10/2007	3 - 39 years
Hampton Inn	East Lansing, MI	4,815	1,649	7,396	367	2,033	2,016	9,429	11,445	(3,360)	10/2007	3 - 39 years
Hampton Inn	Indianapolis, IN	5,293	2,144	11,759	(1,471)	(4,973)	673	6,786	7,459	(2,560)	10/2007	3 - 39 years
Hampton Inn	Milford, CT	4,546	2,665	6,199	(670)	(623)	1,995	5,576	7,571	(1,636)	10/2007	3 - 39 years
Hampton Inn	Naperville, IL	5,833	2,494	14,727	(681)	(4,154)	1,813	10,573	12,386	(2,362)	10/2007	3 - 39 years
Hampton Inn	Orlando, FL	9,931	3,198	17,555	(282)	(5,400)	2,916	12,155	15,071	(3,114)	10/2007	3 - 39 years
Hampton Inn	Urbana, IL	9,542	2,386	15,031	779	3,104	3,165	18,135	21,300	(4,807)	10/2007	3 - 39 years
Hilton Garden Inn	Louisville, KY	5,656	2,007	11,327	557	2,346	2,564	13,673	16,237	(4,169)	10/2007	3 - 39 years
Hilton Garden Inn	Rio Rancho, NM	3,726	2,234	13,278	(195)	(1,938)	2,039	11,340	13,379	(2,936)	10/2007	3 - 39 years
Homewood Suites	Augusta, GA	5,831	1,623	8,916	448	1,983	2,071	10,899	12,970	(3,250)	10/2007	3 - 39 years
Homewood Suites	Orlando, FL	15,878	5,938	33,829	(739)	(4,624)	5,199	29,205	34,404	(4,037)	10/2007	3 - 39 years
Homewood Suites	Seattle, WA	24,739	5,330	37,204	1,906	2,226	7,236	39,430	46,666	(10,286)	10/2007	3 - 39 years
Residence Inn	Jacksonville, FL	4,644	1,872	10,023	(336)	(3,641)	1,536	6,382	7,918	(1,798)	10/2007	3 - 39 years
SpringHill Suites	Asheville, NC	4,779	1,887	10,800	(156)	(2,919)	1,731	7,881	9,612	(2,393)	10/2007	3 - 39 years
TownePlace Suites	Savannah, GA	5,566	1,400	9,039	(211)	(2,597)	1,189	6,442	7,631	(1,934)	10/2007	3 - 39 years
		154,647	53,383	290,400	(2,483)	(31,571)	50,900	258,829	309,729	(68,899)		

[1] Costs capitalized subsequent to acquisition include reductions of asset value due to impairments.

W2007 Grace Acquisition I, Inc.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2013
(dollars in thousands)

			Initial cost		Costs capitalized subsequent to acquisition [1]		Gross carrying amount at close of period					
Hotel property	Location	Encum-brances	Land and improve-ments	FF&E and buildings and improve-ments	Land and improve-ments	FF&E and buildings and improve-ments	Land and improve-ments	FF&E and buildings and improve-ments	Total	Accumulated depreciation	Acquisition date	Life upon which depreciation is computed
Courtyard	Asheville, NC	— [2]	1,931	10,289	548	2,172	2,479	12,461	14,940	(3,088)	10/2007	3 - 39 years
Courtyard	Athens, GA	— [2]	1,678	8,658	(622)	(2,027)	1,056	6,631	7,687	(1,393)	10/2007	3 - 39 years
Courtyard	Bowling Green, KY	— [2]	1,744	10,369	536	1,970	2,280	12,339	14,619	(2,903)	10/2007	3 - 39 years
Courtyard	Carlsbad, CA	14,186	4,581	29,150	(987)	(10,099)	3,594	19,051	22,645	(1,794)	10/2007	3 - 39 years
Courtyard	Dallas, TX	— [2]	—	23,699	1,208	4,286	1,208	27,985	29,193	(7,202)	10/2007	3 - 39 years
Courtyard	Dalton, GA	4,499	1,566	8,969	461	1,065	2,027	10,034	12,061	(2,106)	10/2007	3 - 39 years
Courtyard	Elmhurst, IL	— [2]	2,967	14,495	(2,248)	(7,774)	719	6,721	7,440	(1,752)	10/2007	3 - 39 years
Courtyard	Gainesville, FL	— [2]	2,080	11,743	592	1,639	2,672	13,382	16,054	(3,240)	10/2007	3 - 39 years
Courtyard	Houston, TX	17,125	4,534	22,921	(906)	(7,764)	3,628	15,157	18,785	(3,727)	10/2007	3 - 39 years
Courtyard	Jacksonville, FL	— [2]	2,185	11,647	(1,057)	(5,372)	1,128	6,275	7,403	(1,463)	10/2007	3 - 39 years
Courtyard	Knoxville, TN	— [2]	1,812	11,157	562	1,168	2,374	12,325	14,699	(2,605)	10/2007	3 - 39 years
Courtyard	Lexington, KY	— [2]	1,902	11,297	578	2,200	2,480	13,497	15,977	(3,080)	10/2007	3 - 39 years
Courtyard	Louisville, KY	— [2]	3,974	18,668	950	3,842	4,924	22,510	27,434	(4,979)	10/2007	3 - 39 years
Courtyard	Mobile, AL	— [2]	—	10,802	221	(6,487)	221	4,315	4,536	(569)	10/2007	3 - 39 years
Courtyard	Orlando, FL	— [2]	2,213	15,391	(129)	(3,737)	2,084	11,654	13,738	(2,157)	10/2007	3 - 39 years
Courtyard	Sarasota, FL	— [2]	1,971	11,122	(1,469)	(7,468)	502	3,654	4,156	(1,324)	10/2007	3 - 39 years
Courtyard	Tallahassee, FL	— [2]	1,987	12,595	(626)	(3,920)	1,361	8,675	10,036	(767)	10/2007	3 - 39 years
Embassy Suites	Orlando, FL	— [2]	6,545	34,333	1,539	2,400	8,084	36,733	44,817	(10,753)	10/2007	3 - 39 years
Fairfield Inn & Suites	Atlanta, GA	— [2]	2,098	13,294	(395)	(4,132)	1,703	9,162	10,865	(1,307)	10/2007	3 - 39 years
Fairfield Inn & Suites	Dallas, TX	— [2]	2,140	9,758	505	2,798	2,645	12,556	15,201	(2,593)	10/2007	3 - 39 years
Hampton Inn	Addison, TX	— [2]	2,227	7,791	379	3,357	2,606	11,148	13,754	(4,180)	10/2007	3 - 39 years
Hampton Inn	Albany, NY	— [2]	3,163	16,907	827	1,409	3,990	18,316	22,306	(4,503)	10/2007	3 - 39 years
Hampton Inn	Alcoa, TN	2,685	1,676	6,415	(1,157)	(1,954)	519	4,461	4,980	(1,756)	10/2007	3 - 39 years
Hampton Inn	Austin, TX	3,000	2,173	8,532	421	2,695	2,594	11,227	13,821	(3,555)	10/2007	3 - 39 years
Hampton Inn	Beckley, WV	— [2]	2,028	11,705	595	3,115	2,623	14,820	17,443	(4,064)	10/2007	3 - 39 years
Hampton Inn	Birmingham, AL	— [2]	—	16,833	865	(3,990)	865	12,843	13,708	(3,180)	10/2007	3 - 39 years
Hampton Inn	Boca Raton, FL	— [2]	2,320	14,677	(644)	(6,934)	1,676	7,743	9,419	(2,440)	10/2007	3 - 39 years
Hampton Inn	Charleston, SC	— [2]	2,104	10,347	(1,041)	(3,836)	1,063	6,511	7,574	(2,159)	10/2007	3 - 39 years
Hampton Inn	Chattanooga, TN	— [2]	2,254	3,062	145	1,531	2,399	4,593	6,992	(1,445)	10/2007	3 - 39 years
Hampton Inn	College Station, TX	3,683	2,026	7,330	369	3,001	2,395	10,331	12,726	(3,325)	10/2007	3 - 39 years
Hampton Inn	Colorado Springs, CO	— [2]	1,528	5,497	(982)	(1,093)	546	4,404	4,950	(2,119)	10/2007	3 - 39 years
Hampton Inn	Columbus, GA	— [2]	1,976	3,719	(610)	31	1,366	3,750	5,116	(1,152)	10/2007	3 - 39 years
Hampton Inn	Deerfield Beach, FL	— [2]	2,515	14,784	(464)	(6,553)	2,051	8,231	10,282	(1,889)	10/2007	3 - 39 years
Hampton Inn	Dublin, OH	— [2]	2,162	9,118	(969)	(2,429)	1,193	6,689	7,882	(1,887)	10/2007	3 - 39 years
Hampton Inn	East Lansing, MI	4,912	1,649	7,396	367	1,999	2,016	9,395	11,411	(2,844)	10/2007	3 - 39 years
Hampton Inn	Fayetteville, NC	— [2]	1,930	5,414	(406)	(668)	1,524	4,746	6,270	(979)	10/2007	3 - 39 years
Hampton Inn	Gastonia, NC	— [2]	1,673	6,716	321	2,072	1,994	8,788	10,782	(2,773)	10/2007	3 - 39 years
Hampton Inn	Glen Burnie, MD	— [2]	—	7,399	97	(3,317)	97	4,082	4,179	(1,498)	10/2007	3 - 39 years
Hampton Inn	Grand Rapids, MI	— [2]	1,430	7,409	382	1,469	1,812	8,878	10,690	(2,156)	10/2007	3 - 39 years
Hampton Inn	Gurnee, IL	— [2]	2,244	10,724	538	3,977	2,782	14,701	17,483	(3,942)	10/2007	3 - 39 years
Hampton Inn	Indianapolis, IN	5,477	2,144	11,759	(1,502)	(5,034)	642	6,725	7,367	(1,906)	10/2007	3 - 39 years
Hampton Inn	Kansas City, MO	— [2]	2,385	10,405	512	3,013	2,897	13,418	16,315	(3,724)	10/2007	3 - 39 years
Hampton Inn	Madison Heights, MI	— [2]	2,163	9,017	(642)	(1,436)	1,521	7,581	9,102	(2,858)	10/2007	3 - 39 years
Hampton Inn	Maryland Heights, MO	— [2]	1,971	7,497	375	3,176	2,346	10,673	13,019	(3,492)	10/2007	3 - 39 years
Hampton Inn	Memphis, TN	— [2]	2,532	12,739	626	1,129	3,158	13,868	17,026	(3,373)	10/2007	3 - 39 years

Hampton Inn	Milford, CT	4,704	2,665	6,199	(670)	(754)	1,995	5,445	7,440	(1,229)	10/2007	3 - 39 years
Hampton Inn	Morgantown, WV	— [2]	2,062	12,765	651	3,428	2,713	16,193	18,906	(4,420)	10/2007	3 - 39 years
Hampton Inn	Naperville, IL	6,034	2,494	14,727	(130)	(2,150)	2,364	12,577	14,941	(3,205)	10/2007	3 - 39 years
Hampton Inn	Norfolk, VA	— [2]	—	10,865	199	(3,762)	199	7,103	7,302	(1,258)	10/2007	3 - 39 years
Hampton Inn	Northville, MI	— [2]	2,120	9,854	(572)	(2,305)	1,548	7,549	9,097	(2,623)	10/2007	3 - 39 years
Hampton Inn	Orlando, FL	10,131	3,198	17,555	(282)	(5,463)	2,916	12,092	15,008	(2,515)	10/2007	3 - 39 years
Hampton Inn	Overland Park, KS	— [2]	2,235	11,126	(1,314)	(4,895)	921	6,231	7,152	(1,929)	10/2007	3 - 39 years
Hampton Inn	Palm Beach Gardens, FL	— [2]	3,017	20,628	(959)	(11,585)	2,058	9,043	11,101	(2,978)	10/2007	3 - 39 years
Hampton Inn	Peabody, MA	— [2]	2,006	10,044	504	2,912	2,510	12,956	15,466	(3,217)	10/2007	3 - 39 years
Hampton Inn	Pickwick Dam, TN	— [2]	702	2,051	103	1,391	805	3,442	4,247	(892)	10/2007	3 - 39 years
Hampton Inn	Scranton, PA	— [2]	2,407	9,696	499	3,362	2,906	13,058	15,964	(3,454)	10/2007	3 - 39 years
Hampton Inn	State College, PA	— [2]	2,141	11,746	577	1,722	2,718	13,468	16,186	(3,198)	10/2007	3 - 39 years
Hampton Inn	Urbana, IL	9,734	2,386	15,031	779	2,949	3,165	17,980	21,145	(3,968)	10/2007	3 - 39 years
Hampton Inn	West Columbia, SC	— [2]	2,144	9,657	(1,151)	(3,093)	993	6,564	7,557	(2,332)	10/2007	3 - 39 years
Hampton Inn	West Palm Beach, FL	— [2]	2,490	20,815	(512)	(12,474)	1,978	8,341	10,319	(2,047)	10/2007	3 - 39 years
Hampton Inn	Westlake, OH	— [2]	1,790	6,918	352	3,171	2,142	10,089	12,231	(2,638)	10/2007	3 - 39 years
Hampton Inn & Suites	Boynton Beach, FL	— [2]	3,852	29,321	(949)	(15,632)	2,903	13,689	16,592	(4,001)	10/2007	3 - 39 years
Hampton Inn & Suites	Franklin, TN	— [2]	2,888	17,758	917	3,172	3,805	20,930	24,735	(5,067)	10/2007	3 - 39 years

Hilton Garden Inn	Louisville, KY	5,862	2,007	11,327	557	2,250	2,564	13,577	16,141	(3,460)	10/2007	3 - 39 years
Hilton Garden Inn	Rio Rancho, NM	3,866	2,234	13,278	(194)	(2,351)	2,040	10,927	12,967	(2,213)	10/2007	3 - 39 years
Hilton Garden Inn	Round Rock, TX	— [2]	4,016	10,474	499	1,855	4,515	12,329	16,844	(3,706)	10/2007	3 - 39 years
Holiday Inn	Mt. Pleasant, SC	— [2]	3,460	12,581	(876)	(2,004)	2,584	10,577	13,161	(2,418)	10/2007	3 - 39 years
Holiday Inn Express	Miami, FL	— [2]	1,726	9,265	(423)	(2,918)	1,303	6,347	7,650	(2,092)	10/2007	3 - 39 years
Homewood Suites	Augusta, GA	5,949	1,623	8,916	448	1,210	2,071	10,126	12,197	(2,765)	10/2007	3 - 39 years
Homewood Suites	Chicago, IL	— [2]	9,554	47,258	2,402	2,211	11,956	49,469	61,425	(10,960)	10/2007	3 - 39 years
Homewood Suites	Germantown, TN	— [2]	1,924	10,006	(664)	(1,753)	1,260	8,253	9,513	(2,525)	10/2007	3 - 39 years
Homewood Suites	Orlando, FL	16,457	5,938	33,829	1,673	2,727	7,611	36,556	44,167	(9,088)	10/2007	3 - 39 years
Homewood Suites	Peabody, MA	— [2]	1,696	10,138	508	1,063	2,204	11,201	13,405	(2,528)	10/2007	3 - 39 years
Homewood Suites	Phoenix, AZ	— [2]	—	18,963	951	(8,867)	951	10,096	11,047	(3,118)	10/2007	3 - 39 years
Homewood Suites	San Antonio, TX	— [2]	2,786	16,826	833	1,647	3,619	18,473	22,092	(4,833)	10/2007	3 - 39 years
Homewood Suites	Seattle, WA	25,237	5,330	37,204	1,906	2,173	7,236	39,377	46,613	(8,815)	10/2007	3 - 39 years
Homewood Suites	Sharonville, OH	— [2]	1,997	3,328	149	1,910	2,146	5,238	7,384	(2,002)	10/2007	3 - 39 years
Homewood Suites	Windsor Locks, CT	— [2]	2,857	14,684	(643)	(1,626)	2,214	13,058	15,272	(2,166)	10/2007	3 - 39 years
Hyatt Place	Albuquerque, NM	— [2]	2,170	13,296	687	3,815	2,857	17,111	19,968	(4,908)	10/2007	3 - 39 years
Hyatt Place	Baton Rouge, LA	— [2]	1,985	21,753	(48)	(3,617)	1,937	18,136	20,073	(3,199)	10/2007	3 - 39 years
Hyatt Place	Birmingham, AL	— [2]	1,828	12,831	(137)	(1,334)	1,691	11,497	13,188	(2,370)	10/2007	3 - 39 years
Hyatt Place	Bloomington, MN	— [2]	2,178	19,123	31	(5,548)	2,209	13,575	15,784	(4,024)	10/2007	3 - 39 years
Hyatt Place	Blue Ash, OH	— [2]	1,039	12,126	(610)	(5,341)	429	6,785	7,214	(2,909)	10/2007	3 - 39 years
Hyatt Place	Columbus, OH	— [2]	1,469	12,535	664	4,198	2,133	16,733	18,866	(5,074)	10/2007	3 - 39 years
Hyatt Place	Franklin, TN	— [2]	1,658	18,579	966	3,738	2,624	22,317	24,941	(5,955)	10/2007	3 - 39 years
Hyatt Place	Glen Allen, VA	— [2]	1,523	16,424	(764)	(8,890)	759	7,534	8,293	(2,969)	10/2007	3 - 39 years
Hyatt Place	Indianapolis, IN	— [2]	1,510	11,845	611	4,043	2,121	15,888	18,009	(4,964)	10/2007	3 - 39 years
Hyatt Place	Las Vegas, NV	— [2]	3,910	51,594	174	(29,329)	4,084	22,265	26,349	(6,721)	10/2007	3 - 39 years
Hyatt Place	Linthicum Heights, MD	— [2]	2,038	24,872	477	(7,327)	2,515	17,545	20,060	(4,579)	10/2007	3 - 39 years
Hyatt Place	Memphis, TN	— [2]	1,697	11,087	571	3,816	2,268	14,903	17,171	(4,601)	10/2007	3 - 39 years
Hyatt Place	Miami, FL	— [2]	2,230	15,006	(1,010)	(5,180)	1,220	9,826	11,046	(3,065)	10/2007	3 - 39 years
Hyatt Place	Overland Park, KS	— [2]	1,497	15,328	(29)	(5,323)	1,468	10,005	11,473	(3,576)	10/2007	3 - 39 years
Hyatt Place	Tampa, FL	— [2]	2,062	20,589	(89)	(8,552)	1,973	12,037	14,010	(3,987)	10/2007	3 - 39 years
Residence Inn	Boise, ID	— [2]	2,167	12,129	(399)	(3,183)	1,768	8,946	10,714	(2,588)	10/2007	3 - 39 years
Residence Inn	Chattanooga, TN	— [2]	1,947	9,756	508	2,122	2,455	11,878	14,333	(3,251)	10/2007	3 - 39 years
Residence Inn	Colorado Springs, CO	— [2]	1,924	10,379	(636)	(4,071)	1,288	6,308	7,596	(1,171)	10/2007	3 - 39 years
Residence Inn	Eagan, MN	— [2]	2,648	13,324	(399)	(3,194)	2,249	10,130	12,379	(2,767)	10/2007	3 - 39 years
Residence Inn	El Segundo, CA	— [2]	4,789	30,344	1,561	2,648	6,350	32,992	39,342	(7,900)	10/2007	3 - 39 years
Residence Inn	Ft Myers, FL	— [2]	1,905	13,231	(1,015)	(6,280)	890	6,951	7,841	(2,165)	10/2007	3 - 39 years
Residence Inn	Jacksonville, FL	4,814	1,872	10,023	(336)	(3,688)	1,536	6,335	7,871	(1,463)	10/2007	3 - 39 years
Residence Inn	Knoxville, TN	— [2]	1,552	10,977	614	2,140	2,166	13,117	15,283	(3,140)	10/2007	3 - 39 years
Residence Inn	Lexington, KY	— [2]	2,031	15,220	777	1,462	2,808	16,682	19,490	(3,946)	10/2007	3 - 39 years
Residence Inn	Macon, GA	— [2]	1,661	8,892	(294)	(1,828)	1,367	7,064	8,431	(2,375)	10/2007	3 - 39 years
Residence Inn	Mobile, AL	— [2]	—	8,021	449	(2,639)	449	5,382	5,831	(1,486)	10/2007	3 - 39 years
Residence Inn	Monmouth Junction, NJ	— [2]	3,885	18,618	(1,504)	(5,717)	2,381	12,901	15,282	(3,008)	10/2007	3 - 39 years
Residence Inn	Oklahoma City, OK	— [2]	2,657	14,060	(880)	(4,162)	1,777	9,898	11,675	(1,859)	10/2007	3 - 39 years
Residence Inn	Omaha, NE	— [2]	1,835	9,241	(847)	(2,632)	988	6,609	7,597	(1,954)	10/2007	3 - 39 years
Residence Inn	Portland, OR	— [2]	3,948	22,802	(1,702)	(8,299)	2,246	14,503	16,749	(1,970)	10/2007	3 - 39 years
Residence Inn	San Diego, CA	— [2]	3,068	19,387	(369)	(7,074)	2,699	12,313	15,012	(2,625)	10/2007	3 - 39 years
Residence Inn	Sarasota, FL	— [2]	1,823	12,028	(460)	(4,939)	1,363	7,089	8,452	(1,797)	10/2007	3 - 39 years
Residence Inn	Savannah, GA	— [2]	1,656	8,471	(344)	(2,255)	1,312	6,216	7,528	(1,632)	10/2007	3 - 39 years
Residence Inn	Somers Point, NJ	— [2]	2,787	16,004	(1,426)	(8,249)	1,361	7,755	9,116	(1,015)	10/2007	3 - 39 years
Residence Inn	Tallahassee, FL	— [2]	1,706	10,908	(328)	(3,657)	1,378	7,251	8,629	(2,151)	10/2007	3 - 39 years
Residence Inn	Tampa, FL	— [2]	2,378	13,174	(766)	(5,563)	1,612	7,611	9,223	(1,756)	10/2007	3 - 39 years
Residence Inn	Tampa, FL	— [2]	1,880	10,325	(716)	(5,138)	1,164	5,187	6,351	(1,657)	10/2007	3 - 39 years
Residence Inn	Tinton Falls, NJ	— [2]	—	15,728	368	(8,427)	368	7,301	7,669	(1,097)	10/2007	3 - 39 years
Residence Inn	Tucson, AZ	— [2]	3,192	17,491	(1,574)	(8,944)	1,618	8,547	10,165	(1,976)	10/2007	3 - 39 years
Residence Inn	Williston, VT	— [2]	1,996	11,954	(691)	(4,362)	1,305	7,592	8,897	(1,543)	10/2007	3 - 39 years
SpringHill Suites	Asheville, NC	4,954	1,887	10,800	(156)	(2,941)	1,731	7,859	9,590	(1,975)	10/2007	3 - 39 years
SpringHill Suites	Grand Rapids, MI	— [2]	1,333	7,289	377	1,652	1,710	8,941	10,651	(2,108)	10/2007	3 - 39 years
SpringHill Suites	Houston, TX	— [2]	2,045	8,020	(1,167)	(2,006)	878	6,014	6,892	(1,531)	10/2007	3 - 39 years
SpringHill Suites	Lexington, KY	— [2]	2,133	11,732	596	1,234	2,729	12,966	15,695	(2,545)	10/2007	3 - 39 years
SpringHill Suites	Round Rock, TX	— [2]	2,949	7,174	368	2,287	3,317	9,461	12,778	(2,844)	10/2007	3 - 39 years
SpringHill Suites	San Antonio, TX	— [2]	—	13,227	686	(6,466)	686	6,761	7,447	(1,935)	10/2007	3 - 39 years

SpringHill Suites	San Diego, CA	— [2]	3,624	21,401	(311)	(6,676)	3,313	14,725	18,038	(3,007)	10/2007	3 - 39 years
TownePlace Suites	Savannah, GA	5,677	1,400	9,039	(210)	(2,570)	1,190	6,469	7,659	(1,523)	10/2007	3 - 39 years
		158,986	283,398	1,736,539	(5,901)	(255,235)	277,497	1,481,304	1,758,801	(378,322)		

(1) Costs capitalized subsequent to acquisition include reductions of asset value due to impairments.
(2) Hotel is collateral for the GE Mortgage which has a balance of $955,266 at December 31, 2013.

Notes:

	Year Ended December 31,				
	2014	2013	2012	2011	2010
(a) The changes in total cost of investments in real estate are as follows (note 1):					
Balance at the beginning of the year	$ 1,772,054	$1,890,906	$1,969,409	$1,946,279	$2,009,095
Additions to investments in real estate	10,239	19,429	42,535	41,688	52,326
Sales/disposals	—	(95,335)	(7,546)	(13,070)	
Impairment charges	(17,251)	(42,946)	(113,492)	(5,488)	(115,142)
Transfer to Senior Mezz	(1,455,313)	—	—		
Balance at the end of the year	$ 309,729	$1,772,054	$1,890,906	$1,969,409	$1,946,279
(b) The changes in accumulated depreciation and amortization of investments in real estate are as follows (note 1):					
Balance at the beginning of the year	$ (379,957)	$ (328,484)	$ (271,446)	$ (191,435)	$ (125,654)
Depreciation	(33,095)	(85,951)	(89,170)	(82,340)	(79,163)
Amortization	(73)	(262)	(284)	(305)	(135)
Sales/disposals	—	19,450	5,639	1,629	
Impairment charges	8,215	15,290	26,777	1,005	13,517
Transfer to Senior Mezz	336,011	—			
Balance at the end of the year	$ (68,899)	$ (379,957)	$ (328,484)	$ (271,446)	$ (191,435)

Note 1: Cost and accumulated depreciation and amortization above includes below market ground leases which are not included in Schedule III.

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Annex F - Unaudited pro forma condensed consolidated balance sheet of the Company as of December 31, 2014 and unaudited pro forma condensed consolidated statement of operations for year ended December 31, 2014

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information has been prepared by the management of W2007 Grace Acquisition I, Inc. (the Company) and gives pro forma effect to the completion of (i) the sale by subsidiaries of the Company of 20 wholly owned hotels (the Company Hotel Sale) and the sale by subsidiaries of WNT Holdings, LLC (WNT) of 96 hotels (the WNT Hotel Sale, and, together with the Company Hotel Sale, the Portfolio Sale) pursuant to the Amended and Restated Real Estate Sale Agreement (the Agreement), dated November 11, 2014, with subsidiaries of American Realty Capital Hospitality Trust, Inc. (the Buyer), in exchange for total consideration of $1.808 billion, (ii) the application of a portion of the proceeds from the sale to defease $149.8 million outstanding under the Company's notes payable, repay $3.7 million under one of the Company's notes payable and repay $50.0 million in junior subordinated debt (the Debt Repayment) and (iii) the receipt of preferred equity interests with an initial capital balance of approximately $99.8 million in a newly-formed Delaware limited liability company, ARC Hospitality Portfolio II Holdco, LLC, who is the indirect owner of 20 hotels in the Portfolio (the Preferred Equity Receipt). The following unaudited pro forma condensed consolidated financial information also gives pro forma effect to the exercise of the purchase option (the Purchase Option Exercise) by WNT Holdings, LLC (WNT) for 97% of the equity interests in W2007 Senior Mezz, LLC (Senior Mezz), the indirect owner of 106 hotels prior to the WNT Hotel Sale.

The following unaudited pro forma condensed consolidated financial information is provided for informational purposes only. The unaudited pro forma condensed consolidated financial information is not necessarily indicative of what the financial position or results of operations of the Company actually would have been if the sale of the Portfolio, the Debt Repayment, the Preferred Equity Receipt and the Purchase Option Exercise had been completed as of and for the periods indicated. In addition, the unaudited pro forma condensed consolidated financial information does not purport to project the future financial position or operating results of the Company after consummation of the Portfolio Sale, the Debt Repayment, the Preferred Equity Receipt and the Purchase Option Exercise.

The unaudited pro forma condensed consolidated financial information is based on financial statements prepared in accordance with U.S. generally accepted accounting principles. In addition, the unaudited pro forma condensed consolidated financial information is based upon available information and a number of assumptions that the Company considers to be reasonable, and that have been made solely for purposes of developing such unaudited pro forma condensed consolidated financial information in compliance with the disclosure requirements of Regulation S-X Article 11 promulgated by the Securities and Exchange Commission (SEC).

The unaudited pro forma condensed consolidated statement of operations gives effect to the Portfolio Sale, the Debt Repayment, the Preferred Equity Receipt and the Purchase Option Exercise as if they had occurred on January 1, 2014. The unaudited pro forma condensed consolidated balance sheet gives effect to the Portfolio Sale, the Debt Repayment, the Preferred Equity Receipt and the Purchase Option exercise as if they had been consummated on December 31, 2014.

Pro forma adjustments related to the unaudited pro forma condensed consolidated statement of operations give effect to certain events that are (i) directly attributable to the Portfolio Sale, the Debt Repayment, the Preferred Equity Receipt and the Purchase Option Exercise, (ii) factually supportable and (iii) expected to have a continuing impact on the Company's results. Pro forma adjustments related to the unaudited pro forma condensed consolidated balance sheet give effect to events (i) that are directly attributable to the Portfolio Sale, the Debt Repayment and the Preferred Equity Receipt and (ii) that are factually supportable regardless of whether they have a continuing impact or are non-recurring.

You should read this unaudited pro forma information in conjunction with the accompanying notes to the unaudited pro forma condensed consolidated financial information and the separate historical audited consolidated financial statements and accompanying notes of the Company as of and for the year ended December 31, 2014 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

W2007 GRACE ACQUISITION I, INC.
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2014
(in thousands, except share and per share amounts)

	As Reported	Portfolio sale	Pro Forma
ASSETS			
INVESTMENTS IN REAL ESTATE, net	$ 240,830	$ (240,830)(a)	$ —
INVESTMENT IN SENIOR MEZZ	4,920	12,760(b)	17,680
INVESTMENT IN MANDATORILY REDEEMABLE PREFERRED EQUITY INTEREST	—	99,799(c)	99,799
CASH AND CASH EQUIVALENTS	12,444	25,040(d)	37,484
RESTRICTED CASH	2,809	(2,809)(e)	—
ACCOUNTS RECEIVABLE, net	1,906	(1,056)(f)	850
OTHER ASSETS	834	(427)(g)	407
DEFERRED FINANCING COSTS, net	359	(359)(h)	—
DEFERRED FRANCHISE FEES, net	918	(918)(i)	—
Total assets	$ 265,020	$ (108,800)	$156,220
LIABILITIES AND EQUITY			
NOTES PAYABLE	$ 203,126	$ (203,126)(j)	$ —
OTHER LIABILITIES:			
Accounts payable and accrued liabilities	33,437	—	33,437
Payable to affiliate	6,763	1,734(k)	8,497
Accrued interest payable	1,020	(1,020)(l)	—
Total liabilities	244,346	(202,412)	41,934
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Preferred stock, $0.01 par value, 10,000,000 shares authorized: Series B, 8.75%, $0.01 par value, $25.00 redemption value, 3,450,000 shares issued and outstanding	60,375	—	60,375
Series C, 9.00%, $0.01 par value, $25.00 redemption value, 2,400,000 shares issued and outstanding	40,800	—	40,800
Series D, 8.00%, $0.01 par value, $250.00 redemption value, 125 shares issued and outstanding	31	—	31
Common stock, $0.01 par value, 100,000,000 shares authorized, 100 shares issued and outstanding	—	—	—
Additional paid-in-capital	9,979	—	9,979
Retained deficit	(74,764)	1,745(m)	(73,019)
Total shareholders' equity	36,421	1,745	38,166
NON-CONTROLLING INTEREST	(15,747)	91,867(m)	76,120
Total equity	20,674	93,612	114,286
Total liabilities and equity	$ 265,020	$ (108,800)	$156,220

The accompanying notes are an integral part of this pro forma condensed consolidated balance sheet.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
(amounts in thousands)

(a) Represents the net historical cost basis of the Company's 20 wholly owned hotels that were sold to the Buyer.
(b) Represents the increase in the recorded value of the Company's 3% interest in Senior Mezz as a result of the WNT Hotel Sale.
(c) Represents the Preferred Equity Receipt.
(d) Represents the release of reserves related to the Company's notes payable ($2,809) (see note (e) below) and net cash received from the Company Hotel Sale ($22,231).
(e) Represents the release of reserves related to the Company's notes payable.
(f) Represents the accounts receivable sold to the Buyer in the Company Hotel Sale.
(g) Represents the other assets sold to the Buyer in the Company Hotel Sale.
(h) Represents the write-off of deferred financing costs related to the Company's notes payable that were repaid in connection with the Company Hotel Sale.
(i) Represents the write-off of deferred franchise fees related to the Company's hotels that were sold in the Company Hotel Sale.
(j) Represents the Debt Repayment.
(k) Represents disposition fee payable to Goldman Sachs Realty Management, L.P. under its asset management agreement with the Company.
(l) Represents the payment of accrued interest in connection with the Debt Repayment.
(m) Represents the increase in equity from the Company Hotel Sale, the Preferred Equity Receipt and the Debt Repayment in which the Company has an effective interest of 2% and non-controlling interest effective interest of 98% and the WNT Hotel Sale in which the Company has an effective interest of 1% and non-controlling interest effective interest of 99%.

W2007 GRACE ACQUISITION I, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014
(in thousands)

	As Reported	Purchase Option Exercise (a)	Company Hotel Sale (b)	Other Pro Forma Adjustments	Pro Forma
REVENUES:					
Rooms	$ 173,222	$ (97,011)	$ (76,211)	$ —	$ —
Food and beverage	3,522	(2,050)	(1,472)	—	—
Other	2,883	(1,745)	(1,138)	—	—
Total hotel revenues	179,627	(100,806)	(78,821)	—	—
OPERATING EXPENSES:					
Direct hotel expenses:					
Rooms	42,743	(24,094)	(18,649)	—	—
Food and beverage	3,167	(1,777)	(1,390)	—	—
Other	1,708	(1,014)	(694)	—	—
Non-departmental	55,829	(32,101)	(23,728)	—	—
Property tax, ground lease, insurance and property management fees	13,064	(7,507)	(5,557)	—	—
Corporate overhead	5,967	(1,141)	(403)	—	4,423
Asset management fees	3,073	(1,717)	(256)	—	1,100
Depreciation and amortization	33,308	(19,344)	(13,964)	—	—
Impairment charges	9,036	—	(9,036)	—	—
Total operating expenses	167,895	(88,695)	(73,677)	—	5,523
OPERATING INCOME (LOSS)	11,732	(12,111)	(5,144)	—	(5,523)
Equity in income (loss) from Senior Mezz	(1,429)	—	—	39(c)	(1,390)
Interest income	76	—	—	7,485 (d)	7,561
Interest expense	(31,325)	19,430	10,283	1,612 (e)	—
Other income	112	(3)	(20)	—	89
Contingent loss on Litigation settlement	(24,250)	—	—	—	(24,250)
Gain on sale of investment in real estate	221		—	—	221
Gain on extinguishment of debt	13,199	(13,199)	—	—	—
NET INCOME (LOSS)	(31,664)	(5,883)	5,119	9,136	(23,292)
Net (income) loss attributable to non-controlling interest	4,384	5,824(f)	(5,017)(f)	(9,045)(f)	(3,854)
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$ (27,280)	$ (59)	$ 102	$ 91	$(27,146)

The accompanying are an integral part of this unaudited pro forma condensed consolidated statement of operations.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(a) The "Purchase Option Exercise" column reflects amounts included in the "As Reported" column that are the historical results of the 106 hotels owned by Senior Mezz that were subject to the Purchase Option Exercise, which were included in the Company's historical consolidated statement of operations from January 1, 2014 to April 10, 2014. Effective with the Purchase Option Exercise on April 11, 2014, the Company deconsolidated the 106 hotels owned by Senior Mezz and began recognizing its 3% interest in Senior Mezz using the equity method.

(b) The "Company Hotel Sale" column reflects amounts included in the "As Reported" column that are the historical results of the Company's 20 wholly owned hotels, which were included in the Company's historical consolidated statements of operations.

(c) Reflects the Company's 3% interest in the pro forma results of operations from Senior Mezz as a result of the WNT Hotel Sale.

(d) Reflects the monthly return on unrecovered capital contributions in respect of the Preferred Equity Receipt at a rate of 7.50% per annum.

(e) Reflects the elimination of interest expense related to the junior subordinated debt that was repaid in connection with the Company Hotel Sale.

(f) Represents the net (income) loss attributable to non-controlling interest which for the Purchase Option Exercise is an effective interest of 99%, for the Company Hotel Sale is an effective interest of 98% and for the other pro forma adjustments is an effective interest of 99%.

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CHARTER
OF
W2007 GRACE ACQUISITION II, INC.

1. Name. The name of the corporation (which is hereinafter called the "Corporation") is W2007 Grace Acquisition II, Inc.

2. For Profit. The Corporation is for profit.

3. Principal and Registered Office; Registered Agent. The address of the Corporation's registered office is 800 South Gay Street Suite 2021, Knoxville, TN 37929 in Knox County. The name of the Corporation's registered agent at that office is C T Corporation System. The address of the Corporation's principal office is 6011 Connection Drive, Irving, TX 75039 in Dallas County.

4. Incorporator. The Incorporator of the Corporation is Nick Snow c/o Sullivan & Cromwell LLP, 1888 Century Park E, Suite 2100, Los Angeles, California in Los Angeles County.

5. Authorized Capital Stock. (a) The total number of shares of stock which the Corporation has authority to issue is one hundred million (100,000,000) shares of Common Stock, $.01 par value per share, and ten million (10,000,000) shares of Preferred Stock, $.01 par value per share.

6. Directors. (a) The Corporation shall have a Board of Directors consisting of not less than three (3) nor more than nine (9) members unless otherwise determined from time to time by resolution adopted by the affirmative vote of at least 80% of the members of the Board of Directors. However, the number of directors shall never be less than the minimum number required by the Tennessee Business Corporation Act. A director need not be a shareholder.

(b) Amendment of this Article. Notwithstanding any other provisions of this Charter or the Bylaws of the Corporation (and notwithstanding that some lesser percentage may be specified by law, this Charter or the Bylaws of the Corporation), the provisions of this Article 6 shall not be amended, altered, changed or repealed without the affirmative vote of at least 80% of the members of the Board of Directors or the affirmative vote of the holders of not less than 75% of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting separately as a class.

7. Special Meetings. Special meetings of the shareholders, for any purpose, or purposes, unless otherwise proscribed by law, may be called by the Chief Executive Officer or President and will be called by the Chief Executive Officer, President or the Secretary at the request in writing of a majority of the Board of Directors of the Corporation. Such request will state the purpose or purposes of the proposed meeting.

Business transacted at any special meeting of shareholders will be limited to the purposes stated in the notice. Shareholders of the Corporation do not have any rights to call a special meeting of shareholders.

8. Dividends. All shares of Common Stock will participate equally in dividends payable to holders of shares of Common Stock when and as declared by the Board of Directors and in net assets available for distribution to holders of shares of Common Stock upon liquidation or dissolution.

9. Preemptive Rights. No holder of shares of capital stock of the Corporation shall have any preemptive or preferential right to subscribe to or purchase (i) any shares of any class of the Corporation, whether now or hereafter authorized; (ii) any warrants, rights, or options to purchase any such shares; or (iii) any securities or obligations convertible into any such shares or into warrants, rights, or options to purchase any such shares.

10. Limitation on Liability to Shareholders. To the maximum extent that Tennessee law in effect from time to time permits limitation of the liability of directors and officers, no director or officer of the Corporation shall be liable to the Corporation or its shareholders for money damages. Neither the amendment nor repeal of this provision, nor the adoption or amendment of any other provision of this Charter or Bylaws inconsistent with this provision, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

11. Indemnification. Any word or words defined in Part 5 of Chapter 18 of Title 48 of the Tennessee Code Annotated, as amended from time to time, or any successor provision thereof (the "Indemnification Section") used in this Article 11, shall have the same meaning as provided in the Indemnification Section.

The Corporation shall indemnify and advance expenses to a director, officer, employee or agent of the Corporation in connection with a proceeding to the fullest extent permitted by and in accordance with the Indemnification Section.

12. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation or who, while a director, officer, employee or agent of the Corporation is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against liability asserted against or incurred by such person in that capacity or arising from such person's status as a director, officer, employee or agent, whether or not the Corporation would have power to indemnify such person against the same liability under the Indemnification Section.

13. This charter is to be effective upon filing by the Secretary of State.

Executed this 10th day of October, 2014.

GRACE ACQUISITION II, INC.

BY: /s/ Nick Snow
NAME: Nick Snow
TITLE: Incorporator