

## **FREQUENTLY ASKED QUESTIONS**

December 15, 2015

The information below relates to the final settlement (the “Settlement”) of a class action brought by preferred shareholders of W2007 Grace Acquisition I, Inc. (OTCBB: WGCBP and WGCCP) (“W2007 Grace”) approved by the United States District Court for the Western District of Tennessee (“Court”), in the matter captioned *Johnson, et al. v. W2007 Grace Acquisition I, Inc., et al.*, No. 2:13-cv-02777 (W.D. Tenn.) (“Action”).

**THIS IS ONLY A SUMMARY OF INFORMATION RELATING TO THE SETTLEMENT. NOTICE, PROXY AND ALL SETTLEMENT PAPERS SHOULD BE READ CAREFULLY AND IN THEIR ENTIRETY.**

**Q: *Who is affected by the Settlement? Who are members of the “Holder Class” and “Seller Class”?***

Owners of W2007 Grace Acquisition I, Inc. 8.75% Series B Cumulative Preferred Stock (“Series B Preferred Stock”) and/or 9.00% Series C Cumulative Preferred Stock (“Series C Preferred Stock” and together with the Series B Preferred Stock, the “Preferred Stock”) who:

(1) as of August 22, 2014 held and through the Merger Effective Time continue to hold Series B or Series C Preferred Stock (the “Holder Class”); and/or,

(2) sold some or all of their Preferred Stock between October 25, 2007 and October 8, 2014, inclusive, and suffered a loss (the “Seller Class”).

**Q: *Who are not members of the Holder Class or Seller Class?***

The Holder Class does not include: Defendants and their affiliates; persons who validly exercise dissenters’ rights in the Merger; and persons who validly exclude themselves from the Holder Class.

Persons or entities who sold all of their Preferred Stock after August 22, 2014 are not members of the Holder Class.

The Seller Class does not include Defendants and their affiliates; persons who sold shares to Defendant PFD Holdings, LLC (“PFD”) in private transactions; and persons who validly excluded themselves from the Seller Class.

Persons or entities who sold all of their Preferred Stock after October 8, 2014 are not members of the Seller Class.

**Q: *Was the Settlement approved?***

**Yes.** On December 4, 2015, the Court entered an Order and Judgment granting final approval of the Settlement (“Final Approval Order”). A copy of the Approval Order can be found at: <http://www.chimicles.com/W2007GraceLitigation>.

***Q: Now that the Settlement has been approved, when can I expect to be paid from the Settlement?***

Whether you are a member of the Holder Class or Seller Class, the Settlement has to become Effective *before* any payments are issued.

*If there is no appeal*, the Final Approval Order becomes final in early January 2016, and it is anticipated that any remaining pre-conditions to the Settlement becoming Effective should be completed by March 2016.

*If an appeal is taken*, the Final Approval Order will not become final, non-appealable until after the appeal is resolved which could take 12 months, or more. Since an appeal will cause significant delay and harm the interests of Class Members, Class Counsel is prepared to request that the Court order person(s) who seek an appeal to post a substantial monetary bond.

***Q: What is the status of the Seller Class Claims?***

The Claims Administrator is in the claims processing stage which the Administrator anticipates will conclude by March 2016. If and when the Settlement becomes Effective, and after the Claims Administrator completes all claims processing, Class Counsel will file a motion with the Court asking for permission to distribute the Net Seller Class Settlement Fund. Once the Court issues that distribution order, the Claims Administrator can promptly commence distribution to the Authorized Claimants. If you are unsure of the status of your Claim, contact the Claims Administrator at (877) 386-1776.

***Q: I received a Notice of Deficiency or a Denial Notice in the mail? What do I do?***

During the claims processing stage, a claim may be deemed “deficient” or “denied” for any number of reasons. You should respond to any communication from the Claims Administrator immediately and provide any additional documentation required therein. Failure to promptly respond and to resolve the noted deficiency may result in the loss of your opportunity to participate in the Net Seller Class Settlement Fund.

***Q: How can I find out more information about the Settlement?***

The Stipulation of Settlement, including all related documents, can be found at: <http://www.chimicles.com/W2007GraceLitigation>. In addition, you should read the Notice of Proposed Settlement of Class Action Litigation in its entirety, as it explains the Settlement, benefits of the Settlement and how the Settlement impacts your rights

In addition, Class Counsel filed papers with the Court on August 7, 2015, in support of the Settlement and fee petition which are also accessible on the Firm’s website.

**Q: What happens if I sell my Preferred Stock?**

If you sell (or sold) all of your Preferred Stock after August 22, 2014, then you are not a member of the Holder Class. You will not receive any distribution from the residual balance, if any, of the Net Seller Class Settlement Fund in accordance with the Settlement and Plan of Allocation. If you do not hold any Preferred Stock at the Effective Time of the Merger, then you will not receive \$26 per share being paid in the Merger.

For any shares of Preferred Stock that you held as of August 22, 2014 and retain through the Effective Time of the Merger, you are a member of the Holder Class with respect to those shares of Preferred Stock.

If you sold any or all of your Preferred Stock on or before October 8, 2014, there is no guaranty that you will be eligible for a distribution from the Net Seller Class Settlement Fund with respect to such shares. The Plan of Allocation details who will be eligible for payment from the Net Seller Class Settlement Fund.

**Q: If I sold my Preferred Stock between August 22, 2014 and October 8, 2014, am I a member of the Seller Class?**

Persons who sold Preferred Stock between October 25, 2007 and October 8, 2014, *and suffered a loss*, are members of the Seller Class with respect to the sold shares. There is no guaranty that you will be eligible for a distribution from the Net Seller Class Settlement Fund. The Plan of Allocation details who will be eligible for payment from the Net Seller Class Settlement Fund.

**Q: If I purchase(d) Preferred Stock after August 22, 2014, am I a member of the Holder Class?**

**No.** If you purchased Preferred Stock after August 22, 2014, then you are not a member of the Holder Class. You will not receive any distribution from the residual balance, if any, of the Net Seller Class Settlement Fund in accordance with the Settlement and Plan of Allocation. If you hold your Preferred Stock at the Effective Time of the Merger (and have not otherwise exercised dissenters' rights, then you will receive \$26 per share.

**Q: What consideration will members of the Holder Class receive in the Settlement?**

Once the Settlement becomes Effective, all Series B Preferred Stock and Series C Preferred Stock (except Excluded Shares) shall be converted into the right to receive **\$26.00** per share. In the aggregate, this is approximately \$62 million to be paid to holders of Preferred Stock who are unaffiliated with any Defendant. In addition, to the extent there remains any balance in the Net Seller Class Settlement Fund, after distribution to eligible members of the Seller Class, then in accordance with the Plan of Allocation, such residual balance, if any, will be distributed to eligible members of the Holder Class. In exchange for receipt of the Settlement Consideration, the members of the Holder Class will release their claims.

***Q: What consideration will members of the Seller Class receive in the Settlement?***

Members of the Seller Class who submitted a timely and valid Proof of Claim, will receive their share, pursuant to the Plan of Allocation, of a Seller Class Settlement Fund consisting of **\$6 million** in cash, net of certain Court awarded Seller Class and administration costs. The Fund will not be reduced by attorneys' fees. The Net Seller Class Settlement Fund shall be allocated and distributed to the eligible Seller Class members pursuant to the Plan of Allocation which is discussed in the Notice.

In exchange for receipt of the Settlement Consideration, the members of the Seller Class will release their claims.

***Q: Should the parties anticipate recovering their market loss from the Seller Class Settlement?***

**No.** There is a difference between market loss and recoverable damages. The Class Period in this matter covers one of the most tumultuous times in our financial markets in more than a half century. We believe that the \$6 million Sellers Class Settlement Fund, which will not be reduced by attorneys' fees, is a fair and reasonable result for those who sold their Preferred Shares, in light of significant litigation risks and the amount of and proof of recoverable damages.

***Q: What did this Case and Settlement accomplish?***

The filing of this case shone a light on the Company, which has been operating "in the dark" since the 2007 Equity Inns Merger. Before filing suit, Class Counsel conducted a statutorily-authorized books and records investigation, resulting in the production and analysis of numerous financial, organizational and operating documents. Utilizing these non-public documents as well as publicly available information, Class Counsel prepared and filed the complaint on September 13, 2013.

Class Counsel aggressively prosecuted the case, seeking and receiving discovery and conducting interviews of persons knowledgeable about the Company and events leading up to the then-current circumstances. Class Counsel consulted with the lawyers handling the case of *Donald J. Roberts IRA et al v. McNeil* that had been pending for more than five years in the Tennessee state court, which had raised claims of breach of fiduciary duty on behalf of a putative class of preferred shareholders against the former directors of Equity Inns. (The *Roberts* case ultimately, in January 2015, was dismissed with prejudice with no class recovery for the preferred shareholders.)

Just prior to the September 13, 2013 filing of the complaint, the market prices for the thinly-traded Series B Preferred Stock and C Preferred Stock ranged around \$10 per share.

By the time Class Counsel began negotiating the proposed settlement with Defendants' Counsel in June 2014 (negotiations that culminated in written settlement documents in October 2014), Class Counsel had become fully familiar with numerous complex transactions that had occurred over the course of the time period between the Equity Inns Merger and the present.

The Equity Inns Merger created a capital structure with up to \$2.06 billion in combined debt financing with claims senior to the Preferred Stock. Through the Equity Inns Merger, the acquiring company assumed majority ownership of the equity in the Company and its operating partnership. In 2009, the Company was in jeopardy of bankruptcy as the real estate and credit markets constricted in unprecedented ways. If bankruptcy had occurred in 2009, the Company has estimated the Preferred Stock would have essentially become worthless. Through a negotiated debt restructuring, the Company avoided bankruptcy. Following the debt restructuring, the Company retained a 3% interest in the entity that owned the 106 hotels.

In negotiating the Settlement, Class Counsel's principal objectives included to:

1. Forestall and cause Defendants not to exercise their rights, discussed below, which would have significantly diminished the Preferred Stockholders' rights and interests.

2. Build a settlement for the Holder Class that secured a near term exit strategy for the Preferred Stockholders after being mired in a state of limbo for seven years that provided a guaranteed realizable value per share, which took into account the proposed sale of hotels to American Realty Capital Hospitality Trust, Inc. ("ARC Hospitality" and the "ARC Transaction"), but was not contingent on the closing of the ARC Transaction. Among the reasons: The volatility of the market, the risks associated with start-up ARC Hospitality's ability to raise capital to close the transaction or successfully refinance or assume the Company's existing debt, the risk of finding another buyer if the ARC Transaction was not completed, the risk the assets included in the ARC Transaction might change, and the expected necessity of the Company to accept a multi-year payment for a portion of the proceeds from the ARC Transaction. (The risks surrounding a possible ARC Hospitality transaction became even more pronounced when, just weeks after submission of the initial preliminary approval motion on October 9, 2014, there was news about regulatory and media scrutiny of key executives of affiliates of ARC Hospitality.)

3. Provide for a buyout price (ultimately negotiated at \$26 per share) that guaranteed the Preferred Stockholders would receive a priority right to the ARC Transaction proceeds attributable to the Operating Partnership and the Company, and constituted a premium to the then expected amount realizable by Preferred Stockholders if the ARC Transaction closed without modification. As a result of the Settlement, the Preferred Stockholders will receive a priority for all value attributable to W2007 Equity LP in the ARC Transaction, notwithstanding their 1% interest in the W2007 Equity LP. Class Counsel believes that, whether taken on a nominal or present value basis, \$26 per share exceeds the amount of attributable value of a share of Preferred Stock but for the settlement. Having locked in guaranteed liquidity for the Preferred Stockholders at the \$26 per share price, while providing downside protection against the matters described in paragraphs 1 and 2, constitutes a significant benefit for the Holder Class members, who may also benefit from a supplemental distribution of the Net Seller Class Settlement Fund, if not fully distributed.