



PHAROS HOTEL FUND I
SUMMARY OF TERMS AND STRUCTURE OF THE PARTNERSHIP

This summary is qualified in its entirety by reference to the Limited Partnership Agreement of the Fund (the “*Partnership Agreement*”) and the Subscription Agreement relating to the purchase of Interests, each of which should be reviewed carefully prior to making an investment decision. To the extent that the terms set forth below are inconsistent with those of the Partnership Agreement or the Subscription Agreement, the Partnership Agreement or Subscription Agreement, as applicable, will control.

The Fund: Pharos Hotel Fund I, LP, a Delaware limited partnership (the “*Fund*”).

Investment Objective: The investment objective of the Fund is to produce long-term capital appreciation through investment in hotels as Hilton or Hyatt hotel brand that are located in the eastern two-thirds of the U.S. (the “*Properties*”).

General Partner, Advisor and the Principals: Pharos Fund I GP, LLC, a Delaware limited liability company (the “*General Partner*”), which is a wholly-owned subsidiary of Pharos Hospitality, LLC, a Delaware limited liability company (“*Pharos*” or the “*Advisor*”), will be the general partner of the Fund. Pharos will be the manager of the General Partner.

Subject to the investment discretion of the Investment Committee (discussed below), through an Investment Management Agreement with the Fund, the Advisor will be responsible for providing day-to-day management and administrative services to the Fund. References herein to the General Partner shall be deemed to include the Advisor, as and when appropriate. The Advisor is owned by J. Edward Watson, III (“*Watson*”), Adam Zembruski (“*Zembruski*”), Ralph N. Strayhorn, (collectively, the “*Principals*”), and others to be named, and certain passive investors that have invested in Pharos to provide it with the necessary working capital for investigating and securing projects for the Fund and to help finance the General Partner’s commitment in the Fund.

Investment Committee: Exclusive discretionary authority to make investment decisions for the Fund including, without limitation, the acquisition, management and disposition of portfolio investments will be vested in the General Partner’s investment committee (the “*Investment Committee*”). The members of the Investment Committee are Watson, Zembruski, and Ralph Stayhorn for so long as each of them is employed or engaged by Pharos. All decisions of the Investment Committee shall require a majority of the votes eligible to be cast, and each member thereof will have the ability to cast one vote.

Offering:

The Fund is seeking Commitments (“*Commitments*”) from investors up to amounts totaling \$120 million. The General Partner reserves the right to accept Commitments totaling less than or in excess of this amount, in its sole discretion; provided that the minimum total Commitments to the Fund will be no less than \$35 million and the maximum total Commitments will be no greater than \$300 million. The minimum Commitment for an investor in the Fund (each, a “*Limited Partner*,” collectively, the “*Limited Partners*” and, together with the General Partner, the “*Partners*”) is \$1 million for institutions and \$500,000 for accredited investors, although the General Partner reserves the right to accept Commitments of lesser amounts.

GP Commitment:

The General Partner will make aggregate Commitments of at least 3% of all Commitments, not to exceed \$3.4 million.

Closings:

The initial closing of the Fund (the “*Initial Closing*”) is anticipated to occur as soon as practicable following receipt of a minimum of \$35 million in Commitments. The General Partner may hold one or more additional closings from time to time after the Initial Closing (but no more than 12 months thereafter) in order to accept Commitments from new Limited Partners and to permit existing Limited Partners to increase their Commitments (the final such additional closing, the “*Final Closing*”).

Subsequent Closings:

Each Limited Partner that participates in a closing subsequent to the Initial Closing will be required to contribute at such closing an amount equal to its proportionate share of all prior drawdowns (other than drawdowns used to fund Management Fees (defined below) and net of certain interim distributions) and pay a charge equivalent to interest thereon at the rate of prime plus 2% per annum from the respective funding dates thereof to the date of such closing. The amounts so contributed will be distributed to those Limited Partners who participated in prior closings in proportion to their unreturned capital contributions to the extent such amount is not used in Organizational Expenses (as defined below) or reserved for investment. Any amount so distributed to a Limited Partner, to the extent it represents a recovery of contributed capital, will cause a commensurate increase in the amount of its undrawn commitment and will be subject to subsequent drawdown.

Each Limited Partner participating in a closing subsequent to the Initial Closing also will be required to pay its share of the cumulative amount of the Management Fee to Pharos that it would have paid if it had been a Limited Partner on the date of the Initial Closing, and pay a charge equivalent to

interest thereon at the rate of prime plus 2% per annum from the Initial Closing date, and any other Management Fee payment dates, as applicable, to the relevant closing date.

Term:

The term of the Fund shall be 7 years from the Final Closing, unless extended at the discretion of the General Partner for up to two additional one-year periods to provide for the orderly liquidation of the Fund.

No-Fault Termination by Limited Partners:

Upon the affirmative vote of the holders of at least 75% in interest of the Limited Partners, the Investment Period shall cease and the Fund shall be dissolved and wound-up prior to the expiration of its term.

Capital Calls; Investment Period:

The Fund may draw down Commitments from the Partners from time to time on no less than 10 days' prior written notice as needed to make investments and pay Fund expenses (including indemnification obligations) until the third anniversary of the Final Closing (the "*Investment Period*").

The Fund may retain or recall for reinvestment or payment of Fund expenses (i) the invested capital portion of any proceeds received by the Fund from the sale, refinancing or recapitalization of any Fund investment provided such proceeds are received during the Investment Period, and (ii) any amounts called in anticipation of any unconsummated investment by the Fund.

Following the expiration of the Investment Period, Commitments of the Fund may only be drawn down for the purposes of (a) making follow-on investments in existing Properties, (b) funding investments committed to prior to the end of the Investment Period, (c) meeting Fund expenses (including payment of Management Fees and indemnity obligations), (d) funding any obligations under any credit facility or guarantee executed by the Fund and (e) funding the exercise of any options, warrants or similar instruments owned by the Fund.

Distributions:

Distributable cash attributable to any portfolio investment will be apportioned among the Partners (including the General Partner) who made capital contributions with respect to such portfolio investment (each, a "*Participating Partner*") in proportion to their respective capital contributions relating to such portfolio investment. The amount apportioned to each Participating Partner pursuant to the preceding sentence shall then be immediately reapportioned as between such Participating Partner on the one hand and the General Partner on the other hand and distributed as follows:

(i) *Return of Capital Contributions:* First, 100% to such Participating Partner until such Partner has received cumulative distributions pursuant to this clause (i) in an amount equal to such Partner's aggregate capital contributions;

(ii) *Preferred Return:* Second, 100% to such Participating Partner until such Partner has received cumulative distributions pursuant to this clause (ii) equal to a preferred return on such Partner's capital contributions with respect to portfolio investments at a rate of 9% per annum compounded annually (the "**Preferred Return**");

(iii) *Catch-Up to 80-20 Split:* Third, 100% to the General Partner until the cumulative distributions to the General Partner relating to such Participating Partner equal 20% of the sum of (A) the cumulative distributions to such Participating Partner pursuant to clause (ii) above and (B) the cumulative distributions to the General Partner pursuant to this clause (iii); and

(iv) *80-20 Split:* Thereafter, (A) 80% to such Participating Partner, and (B) 20% to the General Partner. (The distributions to the General Partner pursuant to clauses (iii) and (iv)(B) are referred to as the "**Carried Interest**").

Subject to the Fund's reinvestment rights, the Fund will generally distribute net proceeds from each sale, refinancing, recapitalization or other disposition of a Fund investment within 90 days after receipt thereof, and operating or other income received with respect to Fund investments at least quarterly.

Distributions of distributable cash not attributable to portfolio investments shall be distributed to all Partners (including the General Partner) in proportion to their respective proportionate interests in the Partnership property or funds that produced such distributable cash, as reasonably determined by the General Partner

The General Partner will be entitled to withhold from any distributions amounts to pay or reserve for expenses and liabilities of the Fund, as well as for any required withholding taxes or other amounts owed by a Limited Partner.

The Fund will establish and maintain a capital account for each Partner. All items of income, gain, loss and deduction will be allocated to the Partners' capital accounts in a manner generally consistent with the foregoing distribution

provisions and applicable income tax laws and regulations.

Tax Distributions:

Notwithstanding the foregoing priority of distributions, the Fund may make tax distributions to the Partners in respect of their presumed liability for income taxes with respect to income and gain derived through the Fund. Tax distributions shall be deemed to be advances of future distributions to such Partner.

General Partner Clawback:

Upon final liquidation and the distribution of the Fund's remaining assets, the General Partner will be required to contribute an amount to the Fund for distribution to the Limited Partners (up to the amount of the General Partner's cumulative after-tax Carried Interest) if and to the extent that the Limited Partners have not received their aggregate capital contributions and the Preferred Return thereon.

Limited Partner Giveback:

If the Fund incurs any liability which it has insufficient funds to pay, each Partner will contribute to the Fund its pro rata share of such liability (based upon the amount by which such Partner's distributions from the Fund would have been reduced if the amount to be returned to the Fund by the Partners had not been distributed but rather had been used by the Fund to pay such liability directly); provided, however, that in no event will any Partner be required to contribute more than 25% of the aggregate distributions received by such Partner during the preceding two year period.

Management Fee:

Through the end of the Investment Period, the Fund will pay Pharos, quarterly in advance, an annual management fee (the "*Management Fee*") equal to 2% per annum on the aggregate Commitments (the "*Management Fee Base*"), retroactive to the Initial Closing, to originate, monitor and oversee the Fund's investments. Following the end of the Investment Period through the end of the term of the Fund, the Management Fee will be equal to 2% per annum on the aggregate Capital Contributions of all the Partners, reduced by the cost basis of realized investments and the amount of any write-offs.

Organizational Expenses:

The Fund will pay all third party organizational, startup and offering expenses, including but not limited to legal, accounting, and filing expenses, and out-of-pocket expenses of the General Partner and Pharos, incurred in connection with the formation and offering of interests in the Fund, including placement agent or other similar fees ("*Organizational Expenses*").

Other Expenses:

Pharos will be responsible for all ordinary administrative and overhead expenses of Pharos, including rent, utilities and employee salaries.

The Fund will pay all costs and expenses relating to the Fund's activities (to the extent not reimbursed by a portfolio company), including the management fee, legal, due diligence review, auditing, consulting and accounting expenses (including expenses associated with the preparation of the Fund's financial statements, tax returns and K-1 Forms), expenses of the Board of Advisors and annual meetings of the Limited Partners, travel, insurance and other expenses associated with the origination, acquisition, monitoring, holding and disposition of its investments, all third-party expenses in connection with transactions not consummated and extraordinary expenses (such as litigation).

Successor Funds:

Without the prior approval of the holders of 75% interest of the Limited Partners (excluding any Defaulting Limited Partners), none of the Principals (for so long as they are employed by Pharos or any of its affiliates), Pharos nor the General Partner will manage or advise, or serve as the primary source of transactions on behalf of, another pooled investment Fund or other similar collective investment vehicle, the Fund, or a co-investment vehicle formed to invest in a transaction in which the Fund invests) which has substantially the same investment focus as the Fund until the earlier of (i) the end of the Investment Period and (ii) the date on which at least 75% of the Commitments to the Fund have been drawn down and committed to be used for identified investments or expenses.

Active Involvement of the Principals:

During the Investment Period, the Principals (for so long as they are employed by Pharos or any of its affiliates) will remain actively involved in the Fund and will devote at least a substantial majority of their business time and attention to the management of the Fund, and any parallel investment entities or alternative investment vehicles related to any of the foregoing.

Key Person Termination:

If Watson and any other Principal cease, for any reason, to be affiliated with the General Partner, the Investment Period will immediately terminate unless $66\frac{2}{3}\%$ in interest of the Limited Partners (excluding any Defaulting Limited Partners) elect to extend the Investment Period through its regularly scheduled period. In the event of the departure of Watson and any other Principal, the Investment Committee will have the right to designate qualified replacements with the approval of holders of $66\frac{2}{3}\%$ in interest of the Limited

Partners (excluding any Defaulting Limited Partners).

Co-Investments:

The General Partner may in its discretion make available co-investment opportunities to strategic investors, lenders, and/or one or more Limited Partners. Co-investment opportunities may be made available through limited partnerships or other entities formed to make such investments. The General Partner will allocate available investment opportunities among the Fund and any such third parties as it may in its sole discretion determine.

Borrowing:

At the General Partner's discretion, the Fund may borrow to fund all or a portion of a Fund investment or to pay Fund expenses prior to issuing a drawdown notice or pending receipt of Funds pursuant to a drawdown notice (which borrowing may be secured by the Commitments to the Fund). If a Limited Partner's Capital Contribution is "bridged" by such short-term borrowings, the Limited Partner will be allocated the costs of the borrowing.

In addition, the Fund may incur indebtedness secured by all of the assets of the Fund.

Advisory Board:

The Advisory Board of the Fund will consist of up to five members. The Advisory Board will advise the General Partner and its Investment Committee in connection with the Fund's investments, potential conflicts of interest, valuation of the Fund's assets and other matters that are important to the Fund. The Investment Committee may select representatives of the Limited Partners and other individuals to serve on the Board of Advisors from time to time.

Indemnification:

The Fund will indemnify, to the maximum extent permitted by law, the General Partner, Pharos, each of their respective directors, officers, managers, members, partners, employees, affiliates and assigns (including, without limitation, members of the Advisory Board) against liabilities, claims and related expenses including attorneys' fees, incurred by reason of any action performed or omitted in connection with the activities of the Fund or in dealing with third parties on behalf of the Fund if such action or decision not to act was taken in good faith, and provided that such action or decision not to act does not constitute gross negligence, intentional misconduct, a knowing violation of law or an intentional or material breach of the Partnership Agreement or Pharos's Investment Management Agreement.

Default:

Any Limited Partner that defaults on its obligations to make Capital Contributions to the Fund (a "*Defaulting Limited*

Partner”) will suffer material adverse consequences under the terms of the Partnership Agreement. In addition to other legal remedies available to the Fund, unless otherwise determined by the General Partner, a Defaulting Limited Partner will (i) forego any future allocations of income (but not losses) and distributions with respect to Fund investments made prior to its default until the defaulted amount is repaid and (ii) be assessed an immediate 50% reduction of its capital account. In addition, in the discretion of the General Partner, the Fund shall have the right to repurchase the interest of a Defaulting Limited Partner for a purchase price equal to 50% of its capital account balance. Unless the General Partner elects to terminate a Defaulting Limited Partner’s unfunded Commitment, the Defaulting Limited Partner will continue to remain obligated to provide funds as required by the General Partner up to the full amount of its unfunded Commitment, including its pro rata share of the Management Fee. In addition, a Defaulting Limited Partner will lose its right to vote on certain matters.

Transfers and Withdrawals:

Limited Partners generally may not sell, assign, pledge or transfer all or any portion of their interests in the Fund without the prior written consent of the General Partner, which may be given or withheld in its sole discretion. Limited Partners generally may not withdraw from the Fund.

Reports; Annual Meeting:

The General Partner will furnish each Limited Partner with (i) audited annual financial statements, (ii) unaudited quarterly financial statements and (iii) tax information necessary to complete any applicable tax returns. The General Partner intends to hold meetings of the Limited Partners on an annual basis and will provide quarterly portfolio reviews to the Partners.

Amendments:

The Partnership Agreement may be modified or amended at any time by the written consent of the holders of two-thirds in interest of the Limited Partners (excluding any Defaulting Limited Partners) and the written consent of the General Partner; provided that unless otherwise specifically contemplated by the Partnership Agreement, no amendment to the Partnership Agreement will, without the consent of each of the Partners adversely affected thereby, increase the capital commitment of any Limited Partner, change any Limited Partner’s interest in profits, losses, or distributions, or otherwise materially and adversely affect the rights and obligations of any Limited Partner in a different manner than all the other Limited Partners. Without the consent of any Limited Partner, however, the General Partner may amend the Partnership Agreement in certain limited respects

as provided in the Partnership Agreement, including (i) to satisfy requirements or conditions contained in opinions or rulings of federal or state agencies or in federal or state statutes where compliance is necessary or advisable for the Fund, (ii) following any change in federal tax law that would recharacterize the General Partner's "carried interest" as ordinary income, to effect a change that would preserve the current-law capital nature of such gain to the General Partner so long as it does not adversely affect the Limited Partners in any material respect, or (iii) to effect a change that is necessary or desirable to cure ambiguities or typographical errors in the Partnership Agreement.

Confidentiality:

The Limited Partners must keep confidential all matters relating to the Fund, Pharos and their affairs in accordance with the terms of the Partnership Agreement, except as otherwise required by law or regulation.

Placement Agent:

The Fund may engage one or more placement agents. The costs and expenses relating to the engagement of such placement agents will be borne by the Fund.

Legal Counsel:

McGuireWoods LLP will act as U.S. legal counsel for the Fund. In addition, McGuireWoods LLP represents Pharos and the General Partner, and not any Limited Partner (in their capacity as such) or the Limited Partners as a group. No independent counsel has been engaged to represent the Limited Partners.

Fund Accountant:

Grant Thornton