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www.mhihospitality.com

*A publicly traded company
 on the NASDAQ® Stock Market
 under the symbol MDH



Hospitality



2009 Annual Report

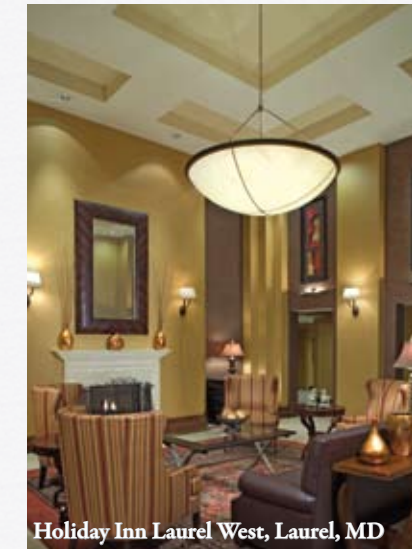
PORTFOLIO



... To
 many it
 represents
 a better
 past;



Crowne Plaza Hollywood Beach Resort, Hollywood Beach, FL



Holiday Inn Laurel West, Laurel, MD



Crowne Plaza Jacksonville Riverfront, Jacksonville, FL

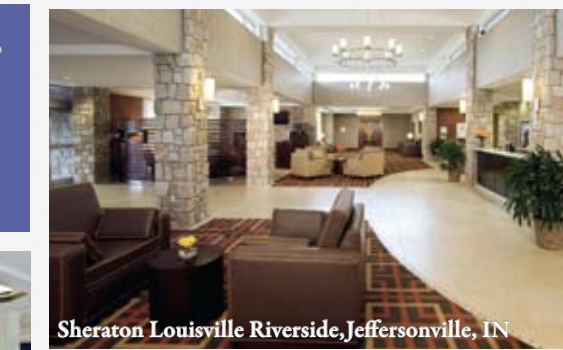


Hilton Wilmington Riverside, Wilmington, NC



to MHI it represents
potential for
 a better future.

Opportunities are *developed*,
 not discovered.
Execution is the
 critical factor.



Sheraton Louisville Riverside, Jeffersonville, IN



Hilton Philadelphia Airport, Philadelphia, PA



Crowne Plaza Hampton Marina, Hampton, VA

Our experience has proven that many
 troubled properties have **outstanding
 inherent value**. Unlocking it requires
vision, acumen, and diligence.



Crowne Plaza Tampa Westshore, Tampa, FL



Hilton Savannah DeSoto, Savannah, GA

STOCKHOLDER LETTER



Andrew M. Sims,
President
Chief Executive Officer
Chairman of the Board

To Our Stockholders:

2009 presented the most challenging market environment the lodging industry has experienced in over fifty years. In a year characterized by unrelenting economic pressures for businesses and consumers alike, we remained focused and moved forward with the execution of our business plan by completing projects in our development pipeline, focusing on the ramp up of our newly repositioned assets, and conserving our liquid assets. While there is no doubt that the past year presented a very challenging operating environment, we consider our efforts to be a success.

- » First, we completed a substantial transformation of our portfolio. During the last five years, we have renovated 3 of our existing hotels and have acquired, renovated and repositioned 6 new hotels; culminating in March 2009 with the opening of the Crowne Plaza Tampa Westshore. Today our portfolio is in the best physical condition in the history of the company.
- » We improved market share at nearly all of our hotels. By working closely with our hotel managers we increased our market share in our various markets. Increased market share positions us to outperform our competitors and drive more net income to the bottom line.
- » We strengthened the balance sheet. Last February, we closed on \$4.75 million in financing secured from an affiliate of The Carlyle Group. This capital infusion provided additional liquidity for our ongoing hotel operations. In December 2009, we successfully completed a rights offering which provided an additional \$3.4 million to the company to be used as operating capital. As a part of this transaction, almost all company officers and directors participated and increased their ownership position; I personally increased my stock ownership position in the company from \pm 5.7% to 9.8%.
- » We committed to supplemental strategies to drive growth and profitability. In the fourth quarter, we became qualified with several special servicers of distressed hotel assets to provide asset management services. Our proven expertise in hotel turnarounds makes these management assignments a natural fit. We believe the company will benefit from an additional revenue stream and these assignments will position us at the forefront of transaction activity so we can make accretive acquisitions when opportunities present themselves.

In response to the weakening economy and declines in revenue and revenue per available room during 2009, we initiated a series of cost-cutting measures at all of our hotels. At many of our properties, these cost-cutting measures mitigated much of the effect of the declines in revenue and improved our operating profitability. Reducing hotel personnel was a painful exercise that was not entered into lightly given the profound negative consequences experienced by those affected.

During 2009, we amended our cash dividend policy to respond to poor market conditions and to comply with certain restrictions set forth in amendments to our credit agreement. We currently intend to maintain our annual cash dividend distribution level at 90 percent of taxable income; a level consistent with maintaining REIT status.

Today, our hotel real estate platform is leaner and more competitive. As a result we are well positioned to reap the benefits as the lodging industry begins an expected recovery over the next 12 to 18 months. We believe our hotel assets will realize sustainable gains in profits as industry-wide fundamentals return to more normal levels.

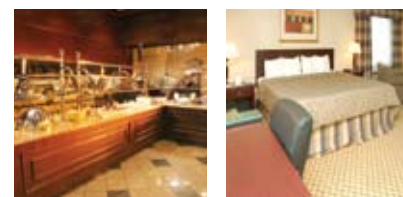
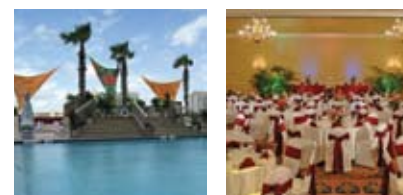
As we look forward to 2010, we have established the following goals and objectives to continue our progress.

- » Complete the ramp up of our repositioned hotel assets. We intend to continue to take share from our competitors, manage effectively to maximize the profitability of each and every asset by fine-tuning expenses and staffing levels.
- » Continue to pursue prudent capital-raising strategies to bolster our financial position. We intend to raise additional capital during 2010 based on market opportunities that best serve the company's needs and benefit our stockholders.
- » Pursue a conservative growth strategy through smart acquisition opportunities. Once we achieve a sufficient liquidity position, we intend to pursue growth opportunities. We believe that once in a generation buying opportunities will surface during the next 12-18 months and we intend to be positioned to make acquisitions that will be accretive and add value for our stockholders.
- » Restart our dividends in the latter part of the year. We intend to begin paying dividends to our stockholders once we improve our liquidity position.

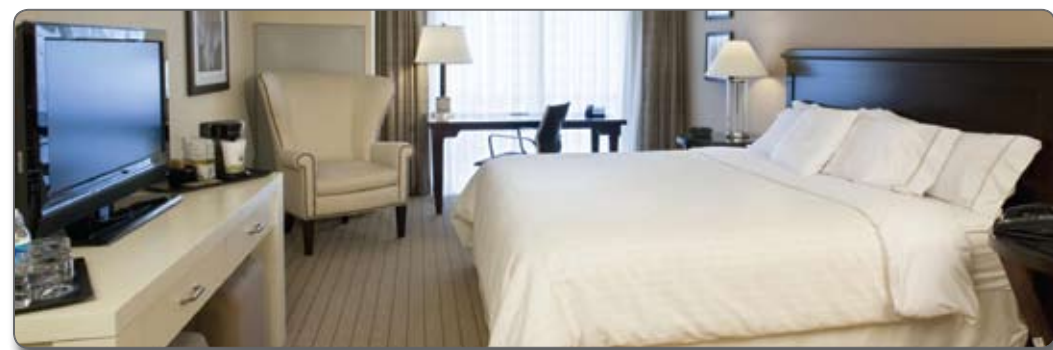
In January 2010, Edgar Sims, my father and founder of our company, passed away. However, his legacy remains fully entrenched in the company's culture. He instilled in MHI the highest standards of honesty, integrity, and hospitality. 2010 marks our 53rd year in hospitality real estate, and although we continue to operate in a challenged market environment, we are pleased with the progress made last year and are enthusiastic about the next chapter. I would like to thank the entire MHI team for their commitment and hard work over the last year. I would also like to thank the stockholders for their support and patience. I firmly believe MHI is well positioned to prosper as a recovery takes hold and we present a meaningful long-term investment opportunity to our stockholders.

Yours in hospitality,

Andrew M. Sims
Chairman and CEO



“...we remained
focused
and moved
forward with the
execution of our
business plan...”



CORPORATE PROFILE

CORPORATE INFORMATION

Corporate Headquarters

410 West Francis Street
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Web Site

Information on the company's stock price, corporate news, SEC filings, earnings releases and other financial data about MHI Hospitality can be found on the Internet at:

www.mhihospitality.com

2009 Awards



Crowne Plaza Tampa Westshore
InterContinental Hotels Group
Renovation Award

Finance & Compliance Offices

11200 Rockville Pike
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Independent Auditors

Witt Mares, PLC
4801 Courthouse Street
Suite 200
Williamsburg, VA 23185
Phone: 757-229-7180
Fax: 757-229-5452

Exchange Listings

MHI Hospitality's common shares are listed on the NASDAQ[®] Stock Market under the symbol MDH.

BOARD OF DIRECTORS

Andrew M. Sims
President
Chief Executive Officer
Chairman of the Board

General Anthony C. Zinni
(USMC Ret.)
Director

J. Paul Carey
Director

Edward S. Stein
Director

James P. O'Hanlon
Director

Kim E. Sims
Director

Christopher L. Sims
Director

OFFICERS

Andrew M. Sims
President
Chief Executive Officer

William J. Zaiser
Executive Vice President
Chief Financial Officer

David R. Folsom
Executive Vice President
Chief Operating Officer

Julia F. Connolly
Vice President
Chief Compliance Officer

Anthony E. Domalski
Vice President
Chief Accounting Officer

Executive Staff

Scott M. Kucinski
Director of Investor Relations

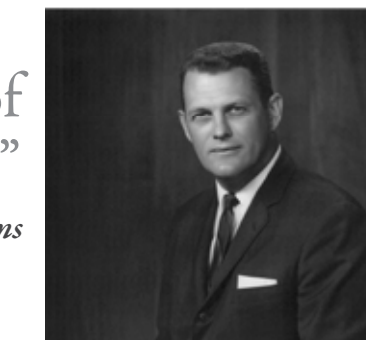
James E. Moyler, III, CHA
Asset Manager

Rhonda L. Smith
Executive Assistant

A TRADITION OF EXCELLENCE

“He instilled in MHI the highest standards of
honesty, integrity, and hospitality.”

- Andrew M. Sims



Edgar Sims