

James H.M. Sprayregen, P.C.  
Paul M. Basta  
KIRKLAND & ELLIS LLP  
601 Lexington Avenue  
New York, New York 10022-4611  
Telephone: (212) 446-4800  
Facsimile: (212) 446-4900

and

Anup Sathy, P.C.  
Marc J. Carmel (admitted *pro hac vice*)  
KIRKLAND & ELLIS LLP  
300 North LaSalle  
Chicago, Illinois 60654-3406  
Telephone: (312) 862-2000  
Facsimile: (312) 862-2200

Counsel to the Debtors and Debtors in Possession

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

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In re:	)	Chapter 11
	)	
INNKEEPERS USA TRUST, <i>et al.</i> , <sup>1</sup>	)	Case No. 10-13800 (SCC)
	)	
Debtors.	)	Jointly Administered
	)	

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**DEBTORS' STATUS REPORT**

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Innkeepers USA Trust and certain of its affiliates, as debtors and debtors in possession (collectively, the “**Debtors**”), respectfully submit this status report (the “**Status Report**”) for the benefit of the Bankruptcy Court and parties in interest to provide background of the Debtors’ activities since the filing of these chapter 11 cases, and, in particular, since the hearings on

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<sup>1</sup> The list of Debtors in these Chapter 11 Cases along with the last four digits of each Debtor’s federal tax identification number can be found by visiting the Debtors’ restructuring website at [www.omningt.com/innkeepers](http://www.omningt.com/innkeepers) or by contacting Omni Management Group, LLC at Innkeepers USA Trust c/o Omni Management Group, LLC, 16161 Ventura Boulevard, Suite C, PMB 606, Encino, California 91436. The location of the Debtors’ corporate headquarters and the service address for their affiliates is: c/o Innkeepers USA, 340 Royal Poinciana Way, Suite 306, Palm Beach, Florida 33480.

August 31, 2010 and September 1, 2010. Among other things, this Status Report provides an update relating to (i) the Debtors' ongoing restructuring and (ii) operations, cash collateral, and the debtor in possession financing facilities.

### Plan Process

1. Since the plan support agreement (the "**PSA**") terminated on September 2, 2010, the Debtors have engaged all major stakeholders to solicit input regarding restructuring alternatives with the goal of proposing and filing a consensual plan. The Debtors also have established a communications protocol to promote their restructuring process. The Debtors have designated Moelis & Company ("**Moelis**") as the primary point of contact for plan-related financial and business issues, while the Debtors' outside counsel, Kirkland & Ellis LLP ("**Kirkland**"), will coordinate plan-related legal issues. In addition to facilitating and participating in substantive discussions with the Debtors' stakeholders, the Debtors have asked Moelis to: (1) develop new plan concepts; (2) facilitate due diligence by interested parties; and (3) advise the Debtors' board of trustees (the "**Board**"), the independent trustees of the Board, and management on views of valuation and debt capacity.

2. The Board will meet to review and evaluate information about the Debtors' restructuring alternatives, and, as appropriate, the independent trustees of the Board will meet separately. Additionally, the independent trustees will be retaining separate counsel to represent and assist them in carrying out their duties.<sup>2</sup>

3. The Debtors are actively engaging with all of their major stakeholders. The Debtors are facilitating the diligence process with the Debtors' major stakeholders, evaluating the proposal Five Mile Capital Partners ("**Five Mile**") negotiated with Midland Loan Services,

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<sup>2</sup> A motion will be filed for the retention of Fried, Frank, Harris, Shriver & Jacobson LLP on behalf of the independent trustees.

Inc. (“**Midland**”), and investigating alternate plan scenarios. On September 9, 2010, Moelis, on behalf of the Debtors, transmitted a letter to the Debtors’ special servicers, Lehman, the official committee of unsecured creditors, the ad hoc committee of preferred shareholders, and Five Mile, inviting them to a series of in-person meetings with the Debtors and their advisors to discuss the process of developing a plan of reorganization and to solicit their input and ideas.

4. Between September 14, 2010 and September 17, 2010, Moelis and Kirkland, with the Debtors, met with each of these constituencies to solicit input regarding various avenues to restructure the Debtors’ enterprise. At these meetings, Moelis provided an outline of the Debtors’ enterprise level, multi-party philosophy to plan development and discussed the Five Mile proposal. During the meeting with Five Mile and its advisors on September 14, 2010, the parties discussed the plan structure Five Mile negotiated with Midland and Five Mile’s due diligence of the Debtors’ business. Five Mile has signed a confidentiality agreement and has been granted access to the Debtors’ data room. Moelis has spoken with Five Mile numerous times since the September 14, 2010 meeting to answer questions, discuss Moelis’ financial model of the Debtors, coordinate a series of on-site property visits for Five Mile, and facilitate discussions with hotel general managers and the Debtors’ property management partners. In addition, Five Mile has completed approximately 54 site visits, with an additional 16 site visits scheduled.

5. As of September 16, 2010, the Debtors had granted all of their major stakeholders and Five Mile full access to a data room containing detailed information regarding the Debtors’ business and finances, including: property, title, and other insurance documentation; organizational charts; employment agreements; franchise agreements; franchise default notices; management agreements; lockbox agreements; cash management agreements; comfort letters

and other miscellaneous agreements; historical capital expenditures; profit and loss reports; appraisals and property-specific valuations; Smith Travel Reports, which provide certain competitive market information regarding the Debtors' properties; hotel quality assurance reports; historical data with up to four years of information on the average daily income generated by occupied rooms, occupancy, and revenue per available room for the Debtors' properties; the financial model prepared by Moelis with three years of historical financial information on a hotel-by-hotel basis; and budgets.<sup>3</sup> The Debtors have granted 86 individuals, representing major parties in interest and their advisors, access to the electronic data room. To date, these parties have viewed or downloaded over 3,000 documents. The available data includes information about the Debtors' entire enterprise, including information across all pools. Additionally, the Debtors are updating the data room with additional information and analyses (*e.g.*, revised budgets, actual results, or forecasts) as those materials become available.

6. Moreover, Moelis remains available to any interested party or stakeholder with questions regarding the existing data or other information provided. Meanwhile, Moelis has been taking calls from a number of interested outside parties and have logged their interest pursuant to the communications protocol.

7. Going forward, the Debtors are continuing to consider plan concepts and developing a more detailed process timeline. To that end, the Debtors will continue discussions with major stakeholders and will continue to facilitate timely and appropriate access to information, including further due diligence by major stakeholders and Five Mile. The Debtors also are working on a reforecast of their results and projections for 2010 and a 2011 budget, which they expect to complete by the end of this week and mid-December, respectively. The

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<sup>3</sup> In addition to information in the data room, the Debtors filed almost 7,000 pages of schedules and statements on September 1, 2010 that provide supplemental information about the Debtors' business.

Debtors have asked Moelis to complete its valuation and debt capacity analyses and intend to discuss the conclusions with major stakeholders, as well as the Board and the independent trustees.

**Operations, Cash Collateral, and Debtor in Possession Financing Facilities**

8. The Debtors are operating in accordance with their rolling thirteen-week consolidated cash flow forecasts (the “**13-Week Forecast**”) and have exceeded their initial revenue projections and disbursed less in operating and overhead expenses than projected. Consequently, the Debtors have generated more net cash than initially projected, resulting in excess cash available to be distributed to their lenders.

9. At the Debtors’ “first day” hearing, the Bankruptcy Court approved the Debtors’ use of cash collateral on an interim basis [Docket No. 54]. On September 1, 2010, the Bankruptcy Court approved the use of cash collateral on a final basis [Docket No. 402]. The Debtors have complied with the terms of the cash collateral orders, as well as all of their reporting obligations thereunder. Consistent with those orders, and since the petition date, the Debtors have used cash collateral to operate their business as anticipated and have provided substantial reporting at regular intervals to the Adequate Protection Parties (as defined in the Debtor’s cash collateral motion [Docket No. 13]). And although the final cash collateral order authorizes the Debtors to use intercompany loans if necessary, the Debtors have not done so to date, as expected.

10. The Debtors have complied with their obligation to provide a 13-Week Forecast. The 13-Week Forecast, which the Debtors update monthly, is designed to provide the Adequate Protection Parties with a medium-term cash flow forecast on a consolidated basis. The Debtors provided 13-Week Forecasts to the Adequate Protection Parties on July 20, 2010 and September 1, 2010, as required, and are on track to provide another on October 1, 2010.

11. On September 30, 2010, the Debtors intend to provide a “**Variance Report**” comparing actual receipts and disbursements for the postpetition period through August 31, 2010 against the amounts from such period reported in the 13-Week Forecast.

12. In addition, the Debtors have provided a “**Flash Report**” to the Adequate Protection Parties on August 16, 2010 (for the period July 19, 2010 through July 31, 2010), September 1, 2010 (for the period August 1, 2010 through August 15, 2010), and September 15, 2010 (for the period August 16, 2010 through August 31, 2010). The Flash Reports provide initial reporting on the use of cash collateral. With the Debtors’ voluntary modifications, incorporated in the final cash collateral order, beginning on September 15, 2010, the Flash Reports include cash receipts generated during the relevant period by each Tranche of Debt (as defined in the Debtors’ cash collateral motion). The Debtors are on track to provide a Flash Report on September 30, 2010 for the period September 1, 2010 through September 15, 2010. These Flash Reports enable the Adequate Protection Parties to gain further insight into the revenues and disbursements of each Tranche of Debt and permit the Adequate Protection Parties to make informed determinations regarding the likelihood of inter-tranche borrowing, which, as discussed above, has not occurred during these chapter 11 cases thus far.

13. Lastly, on September 15, 2010, the Debtors provided to the lender Representatives (as defined in the final cash collateral order) under each of their respective Tranches of Debt an “**Application Report**” that provides a reconciliation of receipts and disbursements, as well as a final allocation thereof along with a determination of available excess cash to be distributed to the Representatives. The Application Report provides a full and final allocation of disbursements, by Tranche of Debt, for the time period covered by the Application Report (subject to the rights of the Representatives to object).

14. As documented in the September 15, 2010 Application Report, the Debtors have established appropriate reserves to ensure sufficient cash on-hand to pay accrued expenses payable in future periods (in accordance with the final cash collateral order), and have paid operating expenses, overhead expenses, and any outstanding amount relating to the fees and expenses of the lenders' and the Debtors' advisors. After funding the reserve and paying these expenses, there remained excess cash. Consistent with the final cash collateral order, the Debtors' estates paid the excess cash to the Representatives, in the amounts set forth in the Application Report, totaling payments of more than \$6.6 million.

15. In addition to this extensive reporting, the Debtors are complying with their obligations to provide details supporting their reports and have made themselves available to the Adequate Protection Parties for follow-up questions and analysis.

16. The Debtors also are in the process of undertaking a thorough review of the cash balance in a bank account in the name of Debtor Innkeepers USA Limited Partnership, which totaled approximately \$7.4 million as of the petition date (as reported on Schedule B-2). On September 23, 2010, the Debtors communicated to all of their major constituencies that they would separate this cash from the current operating account into a new Bank of America account in the name of Innkeepers USA Limited Partnership, they would not use funds from this new account without a prior Bankruptcy Court order, and all parties retain their right to claim entitlement to such funds. On September 28, 2010, the Debtors confirmed to these same constituencies that the amounts have been deposited into the new account.

17. Further, as reported to the major constituencies in the Debtors' correspondence sent on September 23, AP Services, the Debtors, and the Debtors' other advisors are conducting a reconciliation of these funds to determine, if possible, the source or sources. The Debtors will

share the findings and backup materials as soon as they are ready. The Debtors will ensure everyone has the opportunity to review the facts pertaining to such funds in the ordinary course. The Debtors understand that parties may have competing views with respect to the rights to this cash. Accordingly, the Debtors believe this approach is appropriate.

18. Separately, during the Debtors' review of postpetition cash balances, the Debtors also have identified cash received postpetition that relates to hotel credit card receipts generated prepetition between July 16, 2010 and July 19, 2010 totaling approximately \$3.9 million. With respect to the fixed rate mortgage, such amounts were transferred to the Debtors from the lockbox maintained by Midland Loan Services, Inc. after the interim cash collateral order was entered. Given that these amounts were generated prepetition, they were not included in the Debtors' postpetition cash reports. The Debtors believe that this \$3.9 million represents cash collateral, and the Debtors intend to distribute to each Adequate Protection Party the portion of such amount attributable to its collateral (with appropriate supporting information), as follows: (a) fixed rate loan: \$2,325,124; (b) floating rate loan: \$1,044,875; (c) Anaheim loan: \$154,611; (d) Capmark Mission Valley loan: \$113,046; (e) Capmark Garden Grove loan: \$86,955; (f) Merrill Washington, DC loan: \$84,533; (g) Merrill Tyson's Corner loan: \$51,184; and (h) Merrill San Antonio loan: \$58,561.

19. With regard to the Debtors' postpetition financing facilities, the Court entered orders (a) on September 1, 2010, approving financing from Solar Finance, Inc. for approximately \$17.5 million [Docket No. 385, as amended by Docket No. 432], and (b) on September 2, 2010, approving financing from Five Mile Capital II Pooling International LLC for approximately \$53 million [Docket No. 400]. The Debtors have closed both of these facilities.



New York, New York  
Dated: September 29, 2010

/s/ Paul M. Basta

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James H.M. Sprayregen, P.C.  
Paul M. Basta  
Jennifer L. Marines  
KIRKLAND & ELLIS LLP  
601 Lexington Avenue  
New York, New York 10022-4611  
Telephone: (212) 446-4800  
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Anup Sathy, P.C.  
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