

Term Sheet

Illustrative Terms of Proposed Restructuring July 17, 2010

The following are the proposed principal terms of a restructuring transaction between Lehman ALI Inc. (“**Lehman**”), as mortgage lender, and Innkeepers USA Trust (“**Innkeepers**” and, collectively with its subsidiaries, the “**Company**”).¹ The transaction (the “**Transaction**”) contemplates a conversion of the Company’s obligations under that certain mortgage loan agreement, dated as of June 29, 2007, among Lehman and the affiliates of the Company parties thereto (the “**Floating Rate Debt**”), collateralized by 20 of the Company’s properties (the “**Floating Rate Collateral**”) into all the equity of the reorganized Company (as set forth herein). The Transaction would be effectuated through a prearranged plan of reorganization (the “**Plan**”) in chapter 11 bankruptcy cases filed by Innkeepers and certain of its subsidiaries (the “**Chapter 11 Cases**”) in the United States Bankruptcy Court for the Southern District of New York (the “**Bankruptcy Court**”). This term sheet has been prepared for discussion purposes only and is non-binding, but shall serve as the basis for further negotiations regarding a definitive agreement.

The terms discussed herein constitute an integrated offer, are not divisible except as described herein, and are subject to the terms and conditions hereof. This term sheet is provided in confidence and may be distributed only with the express written consent of Lehman and the Company, as applicable. This term sheet does not include a description of all of the terms, conditions and other provisions that are to be contained in the definitive documentation governing such matters, which remain subject to discussion and negotiation to the extent not inconsistent with the specific matters set forth herein. This term sheet is proffered in the nature of a settlement proposal in furtherance of settlement discussions, and is intended to be entitled to the protections of Rule 408 of the Federal Rules of Evidence and any other applicable statutes or doctrines protecting the use or disclosure of confidential information and information exchanged in the context of settlement discussions, and shall not be treated as an admission regarding the truth, accuracy or completeness of any fact or the applicability or strength of any legal theory.

Lehman’s entry into any definitive transaction on the terms set forth in this term sheet, or otherwise, are subject to approval of the United States Bankruptcy Court administering the chapter 11 case of Lehman Brothers Holdings Inc.

THIS TERM SHEET IS NOT AN OFFER OR A SOLICITATION WITH RESPECT TO ANY SECURITIES OF THE COMPANY OR A SOLICITATION OF ACCEPTANCES OF A CHAPTER 11 PLAN. ANY SUCH OFFER OR

¹ This term sheet is not being provided on behalf of SASCO 2008-C2, LLC (the “**Mezzanine Lender**”) in connection with the mezzanine loan with respect to the collateral securing the Floating Rate Debt or the mezzanine loan with respect to the Anaheim property (the “**Mezzanine Debt**”). Lehman does not make any representations with respect to the Mezzanine Lender.

SOLICITATION SHALL COMPLY WITH ALL APPLICABLE SECURITIES LAWS, IF ANY, AND/OR PROVISIONS OF THE BANKRUPTCY CODE.

Terms:

<u>Treatment of Claims and Equity Interests Under the Plan:</u>	
Floating Rate Debt	Lehman will receive, in full and final satisfaction of its secured mortgage claims in respect of the Floating Rate Debt, 100% of the issued and outstanding new shares of common stock issued by Innkeepers (the “ New Equity ”), subject to dilution by the Management Equity Incentive Program (as defined below) and New Equity distributions, if any, for other Plan uses, as agreed by the parties hereto.
Mezzanine Debt	The Mezzanine Debt will be deemed cancelled, and the Mezzanine Lender will not retain any property or interest on account of such debt under the Plan. The Mezzanine Lender will be deemed to vote against the Plan. No action by the Mezzanine Lender will be required under this Term Sheet or any definitive documentation with respect to the terms set herein.
Fixed Rate Debt	Holders of the claims against the Company for its obligations under that certain mortgage loan agreement, dated as of June 29, 2007, among Lehman and the affiliates of the Company parties thereto (the “ Fixed Rate Debt ”) collateralized by 45 of the Company’s properties (the “ Fixed Rate Collateral ”) will receive, in full and final satisfaction of their claims in respect of such debt, new mortgage notes secured by mortgages on the Fixed Rate Collateral either (a) in an aggregate face amount not to exceed \$550 million; or (b) if such holders make an election for application of section 1111(b)(2) of the Bankruptcy Code, in the amount of the aggregate amount of such holders’ Fixed Rate Debt, with a present value of the new mortgage notes not to exceed \$550 million. The terms of the new Fixed Rate Debt notes and any security interests to be granted in connection therewith are subject to approval, in form and substance, by Lehman and the Company.
Other Secured Debt	Holders of claims against the Company for its obligations under those certain secured mortgage loan agreements, not including the Floating Rate Debt or the Fixed Rate Debt (the “ Other Secured Debt ”), collateralized by seven of the Company’s properties, not including the Floating Rate Collateral or the Fixed Rate Collateral (the “ Other Secured Debt Collateral ”), will receive, in full and final satisfaction of their claims in respect of such debt, new mortgage notes secured by liens on the respective holder’s Other Secured Debt Collateral

	<p>(“Other Secured Debt New Mortgage Notes”) either (a) in an aggregate face amount not to exceed \$150 million; or (b) if a holder of Other Secured Debt claims makes an election for application of section 1111(b)(2) of the Bankruptcy Code, in the amount of the aggregate amount of such holder’s claims, with present value of such Other Secured Debt New Mortgage Note equaling the value of the collateral securing such holder’s claims, <i>provided, however</i>, that the aggregate present value of all Other Secured Debt New Mortgage Notes issued pursuant to (a) and (b) herein shall not exceed \$150 million. The terms of the Other Secured Debt New Mortgage Notes are subject to approval, in form and substance, by Lehman and the Company.</p> <p>Debt allocation among the Other Secured Debt Collateral and identification of any Other Secured Debt Collateral that should be removed from the Company’s portfolio shall be agreed among the parties hereto.</p>
General Unsecured Claims	<p>“General Unsecured Claim” shall mean any unsecured claim against any of the Debtors that is not: (a) an Administrative Claim; (b) a Priority Claim (tax or otherwise); (c) an intercompany claim; or (d) a section 510(b) claim, if any.</p> <p>If a class of General Unsecured Claims votes to accept the Plan and affirmatively release Lehman and its affiliates from all claims and causes of action relating to the Company and/or the Floating Rate Debt, then holders of such General Unsecured Claims shall receive a pro rata distribution of cash in the amount of \$500,000.</p>
Intercompany Claims	<p>Intercompany claims shall not be entitled to receive any distribution under the Plan on account of such claims and shall be deemed to have voted against the Plan. Such claims will be reinstated, extinguished or cancelled as appropriate in the judgment of Lehman and the Company to effectuate the Transaction contemplated by the Plan.</p>
Section 510(b) Claims	<p>Claims subject to subordination pursuant to section 510(b) of the Bankruptcy Code shall not receive any recovery under the Plan and shall be deemed to have voted against the Plan.</p>
Deficiency Claims	<p>Unsecured deficiency claims of holders of Floating Rate Debt, Fixed Rate Debt and Other Secured Debt shall not receive any recovery under the Plan or otherwise without the consent of Lehman and the Company, and, if not receiving any recovery, shall be deemed to have voted against the Plan.</p>
Administrative	<p>Allowed administrative claims shall be paid in cash in the ordinary</p>

Claims	course of business or upon the effective date of the Plan (the “ Effective Date ”), unless the holders of such Administrative Claims agree to different treatment.
Priority Claims	Allowed priority claims shall be paid in cash on the Effective Date; <i>provided</i> , that on the Effective Date Lehman and the Company may determine to defer priority tax claims in accordance with the Bankruptcy Code.
Existing Equity	On the Effective Date, all prepetition common and preferred shares of Innkeepers will be cancelled, and holders of such interests will not retain any property on account of such interests under the Plan. To the extent Lehman and the Company determine that the Company’s existing corporate structure would be the most tax efficient for Lehman and the Company on the Effective Date, the prepetition equity interests of each of Innkeepers’ subsidiaries will be deemed reissued in accordance with the Company’s prepetition corporate structure on terms mutually acceptable to the parties hereto. If Lehman and the Company determine that a different structure would be more beneficial to Lehman and the Company on the Effective Date, the Plan shall provide for such structure, on terms mutually acceptable to the parties hereto.

<u>Means of Implementation:</u>	
Bankruptcy Pleadings	All material pleadings filed by the Company in connection with the Chapter 11 Cases, including all first-day motions, shall be in form and substance reasonably acceptable to Lehman.
DIP Financing	<p>DIP financing to be provided in two separate facilities:</p> <p>(a) a DIP facility provided in an amount equal to \$50.75 million, which is necessary to complete certain Marriott property improvement plan (“PIP”) requirements for (i) certain of those hotels collateralizing the Fixed Rate Debt; (ii) the hotel collateralizing that certain mortgage loan, dated as of October 4, 2006, by and between KPA RIMV, LLC and Capmark Bank (the “Residence Inn in San Diego”); and (iii) the hotel collateralizing that certain mortgage loan, dated as of September 19, 2006, by and between KPA Tysons Corner RI, LLC and Merrill Lynch Mortgage Lending, Inc. (the “Residence Inn in Tyson’s Corner”), secured by senior, priming liens on the Fixed Rate Collateral, the Residence Inn in San Diego, and the Residence Inn in Tyson’s Corner on terms acceptable to Lehman, as substantially set forth on Exhibit A (the “Fixed Rate DIP Facility”). On the Effective Date of the Plan, all amounts outstanding under the Fixed Rate DIP Facility shall be repaid from the Exit Funding (as defined below).</p> <p>(b) a DIP facility provided by Lehman or any of its affiliates in an amount up to approximately \$17.5 million, secured by senior, priming liens on the Floating Rate Collateral on terms to be agreed between the Company and Lehman as substantially set forth on Exhibit B (the “Floating Rate DIP Facility”). On the Effective Date of the Plan which is consistent with the terms hereof, all claims outstanding under the Floating Rate DIP Facility shall be extinguished; <i>provided, however,</i> if, and to the extent, any claim or cause of action is brought by, or on behalf of, the Company or its estates related to the Floating Rate Debt against Lehman or any of its affiliates is allowed by final order or part of a judgment of a court of competent jurisdiction (the “Claims or Causes of Actions”), then the claims arising under the Floating Rate DIP Facility shall be, at Lehman’s election either (i) repaid on the Effective Date of the Plan in an amount equal to any allowed Claim or Cause of Action, up to the amount outstanding under the Floating Rate DIP Facility, or (ii) set off against the Claims or Causes of Action, up to the amount outstanding under the Floating Rate DIP Facility.</p>
Use of Cash	In addition to providing the Floating Rate DIP Facility, Lehman will consent to the use of its cash collateral pursuant to the terms of the

Collateral	<p>cash collateral order attached hereto as Exhibit C.</p> <p>The Company shall not take any action, and shall not solicit, encourage or support any action by a third party, seeking to amend, modify or extend the Plan Milestones (as defined below) (the foregoing provision is hereinafter referred to as the “Milestones Covenant”).</p> <p>The Company’s use of Lehman’s cash collateral will terminate immediately upon the receipt of notice of a Termination Event (as defined below).</p>
Exit Funding	<p>Innkeepers will secure additional funding of no less than \$75 million, plus such additional amounts in form and substance as may be determined by the parties hereto (“Exit Funding”). Prior to any Exit Funding, the reorganized Company shall deliver a comprehensive PIP and cycle renovation budget, which budget shall be (a) prepared with the assistance of, and validated by, a third party expert and (b) acceptable in all respects to the parties hereto (the “Budget”). Such Budget shall be updated annually or more frequently as may be requested by any party hereto.</p>
New Equity	<p>The Plan shall provide that the issuance of the New Equity and any subsequent transfer of New Equity by Lehman prior to the Effective Date will be exempt from (a) securities laws in accordance with section 1145 of the Bankruptcy Code and (b) transfer taxes in accordance with section 1146 of the Bankruptcy Code.</p>
Conditions Precedent to Lehman’s Obligations Under PSA	<p>The Transaction will become binding on Lehman when Lehman and the Company execute a plan support agreement (the “PSA”) that incorporates the Transaction as set forth herein, including:</p> <ul style="list-style-type: none"> ▪ Receipt by Lehman of a Plan term sheet incorporating the terms set forth herein and otherwise in form and substance acceptable to Lehman; ▪ Agreement reached with Marriott in the form attached hereto as Exhibit D; ▪ Innkeepers and each of its wholly owned subsidiaries, including each obligor under the Floating Rate Debt, shall be a signatory to the PSA; and ▪ Bankruptcy Court approval in the chapter 11 bankruptcy proceedings of Lehman Brothers Holdings Inc.

<p>Termination Events Under PSA and Use of Cash Collateral</p>	<p>Upon the occurrence of any of the following events (each, a “Termination Event”), the PSA and the use of Lehman’s cash collateral shall automatically terminate on the first calendar day immediately following one (1) business day after the date of such Termination Event, unless (a) Lehman, in its sole discretion, provides the Company with a written waiver of any such Termination Event within one (1) business day from the date of such Termination Event or (b) Lehman and the Company, in their respective sole discretion, provide the other party with a written waiver of Termination Events R and S within one (1) business day from the date of such Termination Event:</p> <p>A. Failure to meet any of the following milestones (the “Plan Milestones”):</p> <ul style="list-style-type: none"> (i) Motion to assume the PSA filed on the petition date; (ii) Order entered authorizing the assumption of the PSA no later than 45 days after the petition date; (iii) Orders entered on a final (and not interim) basis authorizing the Fixed Rate DIP Facility, Floating Rate DIP Facility, the use of Lehman’s cash collateral and the use of the cash collateral securing the Fixed Rate Debt consistent with the terms hereof no later than 45 days after the petition date; (iv) Disclosure statement and Plan consistent with the terms hereof filed no later than 45 days after the petition date; (v) Disclosure statement consistent with the terms hereof approved by the Bankruptcy Court no later than 120 days after the petition date; (vi) Lehman and the Company shall have reached mutual agreement no later than 120 days after the petition date on the terms of a sale process upon the occurrence of Termination Event A(vii) or A(viii) below; (vii) Order confirming a Plan consistent with the terms hereof entered no later than 240 days after the petition date; and (viii) Effective Date of the Plan no later than 270 days after the petition date. <p>B. Lehman has not executed definitive agreements with respect to the sale of 50% of the New Equity for a</p>
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	<p>purchase price of at least \$107.5 million (the “New Equity Sale Transaction”) by 45 days after the petition date;</p> <p>C. Lehman has not consummated the New Equity Sale Transaction by 270 days after the petition date;</p> <p>D. The entry by the Bankruptcy Court of an interim order authorizing the use of Lehman’s cash collateral in form and substance not acceptable to Lehman;</p> <p>E. The entry of any order of the Bankruptcy Court granting relief from the automatic stay (i) to permit any exercise of remedies by the lenders or special servicer under the Fixed Rate Debt, Other Secured Debt or Mezzanine Debt other than limited relief solely to permit the delivery of default notices under the terms of the Fixed Rate Debt, Other Secured Debt or Mezzanine Debt and (ii) to permit termination of any franchise agreement with Marriott or any other hotel brand;</p> <p>F. The filing by the Company of any motion or other request for relief seeking to (i) dismiss any of the Chapter 11 Cases, (ii) convert any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or (iii) appoint a trustee or an examiner with expanded powers pursuant to section 1104 of the Bankruptcy Code in any of the Chapter 11 Cases;</p> <p>G. (i) The filing by the Company of any motion or other request for relief seeking an extension of the Plan Milestones or any alteration of the remedies upon termination set forth herein without the express written consent of Lehman in its sole discretion; (ii) the filing by the Company of any pleading supporting any motion from any other party to obtain such extension or alteration; (iii) the failure of the Company to oppose any motion from any other party to obtain such extension before the objection deadline of such motion; or (iv) the violation by the Company of the Milestones Covenant;</p> <p>H. The entry of an order by the Bankruptcy Court (i) dismissing any of the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code, (iii) appointing a trustee or an examiner with expanded powers pursuant to section 1104 of the Bankruptcy Code in any of the Chapter 11 Cases or</p>
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	<p>(iv) making a finding of fraud, dishonesty or misconduct by any officer or director of the Company, regarding or relating to the Company;</p> <p>I. The withdrawal, amendment or modification by the Company of, or the filing by the Company of a pleading seeking to amend or modify, the Plan or PSA, which withdrawal, amendment, modification or pleading is materially inconsistent with the terms hereof or the Plan or is materially adverse to Lehman, in each case in a manner not reasonably acceptable to Lehman, or if the Company files any motion or pleading with the Bankruptcy Court that is inconsistent in any material respect with the terms hereof or the Plan (in each case with such amendments and modifications as have been effected in accordance with the terms hereof) and such motion or pleading has not been withdrawn within three (3) business days after Lehman provides written notice to the Company;</p> <p>J. The filing of any motion to approve a disclosure statement or Plan by the Company that incorporates a Pro Forma Capital Structure or any other terms inconsistent with the terms and conditions set forth herein;</p> <p>K. The granting by the Bankruptcy Court of relief that is inconsistent with the terms hereof or the Plan in any material respect (in each case with such amendments and modifications as have been effected in accordance with the terms hereof);</p> <p>L. The issuance by any governmental authority, including the Bankruptcy Court or any other regulatory authority or court of competent jurisdiction, of any ruling, determination or order making illegal or otherwise restricting, preventing or enjoining the consummation of a material portion of the Transaction, including an order denying confirmation of the Plan and such ruling, determination or order has not been vacated or reversed within ten (10) business days of issuance;</p> <p>M. The occurrence and continuation of a default under the Fixed Rate DIP Facility, provided that a cure of such default before the expiration of the notice period shall be a cure of such default hereunder;</p> <p>N. The occurrence and continuation of a default under the Floating Rate DIP Facility, including those set forth on</p>
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	<p>Exhibit B, provided that a cure of such default before the expiration of the notice period shall be a cure of such default hereunder;</p> <p>O. The occurrence and continuation of a default in connection with the Company's use of Lehman's cash collateral, provided that a cure of such default before the expiration of the notice period shall be a cure of such default hereunder; and</p> <p>P. The occurrence after execution of the PSA of (i) a change that has a material adverse effect on the use, value or condition of the Company, its assets or the legal or financial status or business operations of the Company or (ii) a material disruption or material adverse change in the financial, real estate, banking or capital markets;</p> <p>Q. Lehman has determined, in its sole discretion, after completion of its tax due diligence, that the Transaction cannot be structured in a manner acceptable to Lehman, which determination shall be made no later than 45 days after the petition date;</p> <p>R. The material breach by any Party of any of their undertakings, representations, warranties or covenants set forth in the PSA; and</p> <p>S. All parties agree in writing to terminate the PSA.</p>
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<p>Remedies Upon Termination</p>	<p>Upon the occurrence of any of Termination Events A through S, Lehman may terminate the PSA and use of cash collateral.</p> <p>As long as the PSA has not otherwise been terminated, (a) upon the occurrence of Termination Event A(vii) or A(viii); (b) if a trustee is appointed for the Chapter 11 Cases of all of those debtors obligated under the Floating Rate Debt, Fixed Rate Debt, Mezzanine Debt, and Other Secured Debt; or (c) if the Company files a motion to dismiss all of the Chapter 11 Cases for those debtors obligated under the Floating Rate Debt, Fixed Rate Debt, Mezzanine Debt, and Other Secured Debt, the Company shall, immediately upon the occurrence of such Termination Event, elect one of the following remedies, <i>provided, however</i>, that if the Company fails to make such election within one day after the occurrence of the applicable Termination Event, Lehman shall have the right to elect either option:</p> <ul style="list-style-type: none"> (a) The Company will be deemed to have consented to the modification of the automatic stay to permit Lehman to exercise any and all remedies with respect to the Floating Rate Collateral, the automatic stay shall be so modified and no further court approval shall be required; or (b) The Company will sell the Floating Rate Collateral pursuant to section 363 of the Bankruptcy Code, subject to the following conditions, which shall be incorporated into any order approving the PSA: (i) the sale procedures shall be agreed upon no later than 120 days after the petition date; (ii) Lehman shall have the right to credit bid the Floating Rate Debt; (iii) if sale proceeds are not paid to Lehman within 60 days of the Termination Event, title to the Floating Rate Collateral shall be conveyed to Lehman free and clear of all liens, claims and encumbrances; (iv) the 60-day period shall not be extended and the Company waives its right to seek any extension of such period.
<p>Bankruptcy Court Approval of PSA</p>	<p>The Company shall, on or immediately after the commencement of the Chapter 11 Cases, file a motion seeking authorization to assume the PSA. The order approving the PSA shall include provisions that the Company (i) shall not seek an extension of the Plan Milestones or any alteration of the remedies upon termination set forth herein without the express written consent of Lehman in its sole discretion, (ii) shall not support any motion from any other party to obtain such extension or alteration; and (iii) will oppose any motion from any</p>

	other party to obtain such extension or alteration by the objection deadline of such motion.
Pro Forma Capital Structure	<p>Following the consummation of the Transaction, the reorganized Company will have, after repayment of the Fixed Rate DIP Facility, (a) funds sufficient to perform Marriott capital expenditures and brand standard work and (b) cash on hand sufficient to operate the business of the Company, and such amounts in (a) and (b) above shall be acceptable to Lehman and the Company and be capitalized as follows:</p> <p>Fixed Rate Debt: present value less than or equal to \$550 million</p> <p>Other Secured Debt: present value less than or equal to \$150 million</p> <p>Exit Funding: At least \$75 million, plus such additional amounts in form and substance as may be determined by the parties hereto.</p> <p>Except as set forth above, on the Effective Date, the Company shall not have any debts or liens encumbering the Company's assets, except for permitted liens agreed to by Lehman and the Company.</p>
Governance	Prior to the Effective Date, Lehman will determine the requisite number of directors, all of whom will be nominated by Lehman, and voting requirements shall be in form and substance acceptable to Lehman.
Management Equity Incentive Program	The Plan shall provide for a management equity incentive program (the " Management Equity Incentive Program ") in form and substance acceptable to Lehman and the Company providing for a reserve of up to 3% of the New Equity to be allocated to management under the Management Equity Incentive Program as approved by the board of directors of the reorganized Company.
REIT Status	Lehman and the Company shall, after the Effective Date, determine whether to maintain Innkeepers' status as a real estate investment trust.
Property Manager	Prior to the Effective Date of the Plan, Lehman and the Company shall designate a manager for the reorganized Company's properties. If Island Hospitality Management, Inc. (" Island ") is not selected as the manager, the Company will use its reasonable best efforts to effectuate an orderly transition to the replacement manager.
Releases	The Plan shall include a full discharge and release of liability by the Company, other than a release of the obligations set forth herein, in

	favor of (a) the Company and each of its subsidiaries, (b) Lehman, and (c) each of their respective principals, employees, affiliates, subsidiaries, members, shareholders, agents, officers, directors, and professionals from: (i) any and all claims and causes of action arising prior to the Effective Date and (ii) any and all claims arising from the actions taken or not taken in good faith in connection with the Transaction.
Professional Fees	The Company shall pay the professional fees and expenses incurred by Lehman in connection with the Transaction.