ANNUAL REPORT 2013

PROXY STATEMENT 2014

SUPERTEL
HOSPITALITY, INC.

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CORPORATE PROFILE

Supertel Hospitality, Inc. is a self-administered real estate investment trust (REIT) that invests in select-service hotels. Supertel trades on the NASDAQ under the symbols SPPR, SPPRO and SPPRP. As of March 31, 2014, the company owned 68 hotels aggregating 6,009 rooms located in 21 states.

www.supertelinc.com

SUPERTEL HOSPITALITY, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held on May 29, 2014

The Annual Meeting of the shareholders of Supertel Hospitality, Inc. will be held at the DoubleTree by Hilton Omaha Downtown, 1616 Dodge Street, Omaha, Nebraska 68102, on Thursday, May 29, 2014, at 10:00 a.m., local time, for the following purposes:

1. To elect eight directors to serve on the Board of Directors until the annual meeting of shareholders in 2015 or until their successors have been duly elected and qualified;

2. To approve an amendment to the Company's Amended and Restated Articles of Incorporation to increase the permitted maximum size of the Board of Directors from nine (9) to eleven (11) members.

3. To approve reincorporation of the Company from Virginia to Maryland by merging into a newly formed, wholly-owned Maryland corporation.

4. To approve certain proposed provisions of the proposed articles of incorporation under Maryland law in connection with such reincorporation.

5. To transact such other business as may properly come before the Annual Meeting and any adjournments thereof.

Only holders of common stock and Series C convertible preferred stock of the Company of record as of the close of business on April 22, 2014 will be entitled to notice of and to vote at the Annual Meeting and any adjournments thereof.

We enclose, as a part of this Notice, a Proxy Statement which contains further information regarding the Annual Meeting and the items of business.

In order that your shares may be represented at the Annual Meeting, you are urged to promptly complete, sign, date and return the accompanying Proxy Card in the enclosed envelope, whether or not you plan to attend the Annual Meeting. If you attend the Annual Meeting in person you may, if you wish, vote personally on all matters brought before the Annual Meeting even if you have previously returned your Proxy Card.

By Order of the Board of Directors,

JAMES H. FRIEND
Chairman of the Board

Norfolk, Nebraska

May 1, 2014

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SUPERTEL HOSPITALITY, INC.

PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement is provided in connection with the solicitation of proxies by the Board of Directors of Supertel Hospitality, Inc. (the Company) for use at the annual meeting of shareholders to be held on Thursday, May 29, 2014 and any adjournments thereof. The mailing address of the principal executive offices of the Company is 1800 West Pasewalk Avenue, Suite 200, Norfolk, NE 68701. This Proxy Statement and the Proxy Card, Notice of Meeting and the Company's Annual Report, all enclosed herewith, are first being mailed to the shareholders of the Company on or about May 1, 2014.

The Proxy Solicitation

There are two parts to this solicitation: the Proxy Card and this Proxy Statement. The Proxy Card is the means by which you actually authorize another person to vote your shares in accordance with your instructions. This Proxy Statement provides you with information that you may find useful in determining how to vote.

The solicitation of proxies is being made by the Company primarily through the use of the mails. The cost of preparing and mailing this Proxy Statement and accompanying material, will be borne by the Company.

Revocation and Voting of Proxies

Execution of a proxy will not affect a shareholder's right to attend the Annual Meeting and to vote in person. Any shareholder giving a proxy has the power to revoke it by submitting a properly executed proxy bearing a later date, by delivering written notice of revocation to the Secretary of the Company before or at the Annual Meeting or by attending the meeting and voting in person. Proxies will extend to, and will be voted at, any properly adjourned session of the Annual Meeting. The proxy will be voted as specified by the shareholder in the space(s) provided on the Proxy Card. If no specification is made, the proxy will be voted "for" the eight nominees for directors.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on May 29, 2014:

The proxy statement and annual report to shareholders for the fiscal year ended December 31, 2013 are available under "Investor Relations" at our website: *www.supertelinc.com.*

Voting Rights of Shareholders and Votes Required

Only those shareholders of record at the close of business on April 22, 2014, are entitled to notice of and to vote at the Annual Meeting, or any postponements or adjournments of the meeting. At the close of business on April 22, 2014, the Company had 2,901,274 shares of common stock outstanding, $.01 par value per share. The Company has 803,270 shares of non-voting Series A preferred stock, 332,500 shares of non-voting Series B preferred stock, and 3,000,000 shares of voting Series C convertible preferred stock outstanding. The holders of the common stock and the holders of the Series C convertible preferred stock will vote together as one voting group. Each share of common stock entitles the record holder thereof to one vote upon each matter to be voted upon at the Annual Meeting. At this Annual Meeting, each share of the Series C convertible preferred stock entitles the record holder thereof to 0.4923 votes per share upon each matter to be voted upon at the Annual Meeting. Cumulative voting is not permitted. Under Virginia law and the Company's articles of incorporation and bylaws, the presence in person or by proxy of shareholders entitled to cast a majority of all the votes entitled to be cast at the Annual Meeting constitutes a quorum for the transaction of business.

Series C Convertible Preferred Stock Vote Determination

The holders of the Series C convertible preferred stock vote with the holders of the common stock as one voting group, subject to certain voting limitations. For any vote, the voting power of the Series C convertible preferred stock is equal to the lesser of: (a) 0.78625 votes per share, or (b) an amount of votes per share of Series C convertible preferred stock such that the vote of all shares of Series C convertible preferred stock in the aggregate equal 34% of the combined voting power of all Supertel voting stock, minus an amount equal to the number of votes represented by the other shares of voting stock beneficially owned by Real Estate Strategies L.P. and its affiliates. We have been advised by Real Estate Strategies L.P. that as of April 22, 2014, the record date, it beneficially owns 11,723 shares of common stock in addition to the 3,000,000 shares of Series C convertible preferred stock.

At the close of business on April 22, 2014, the record date, there were 2,901,274 shares of common stock outstanding, representing 2,901,274 votes entitled to be cast at the Annual meeting. Voting power of 2,358,750 votes per share of Series C convertible preferred stock exceeds 34% of the votes entitled to be cast at this Annual Meeting. Accordingly, the aggregate number of votes that may be cast by the holders of the common stock and the Series C convertible preferred stock at this Annual Meeting, voting together as one voting group, is 4,378,107 votes, of which 1,476,833 votes, or 0.4922 votes per share, may be cast by the holders of the Series C convertible preferred stock.

Votes Required

Shares of common stock and Series C convertible preferred stock represented by proxies marked “abstain” will be counted as shares present for purposes of determining a quorum. Shares of common stock and Series C convertible preferred stock that are voted by brokers holding shares for beneficial owners on some matters will be treated as present for purposes of determining a quorum, but will not be treated as shares entitled to vote at the Annual Meeting on those matters as to which authority is withheld by the broker (“broker non-votes”). No specific provision of Virginia law or the Company’s articles of incorporation or bylaws addresses abstentions or broker non-votes.

The eight nominees receiving the most votes cast at the Annual Meeting will be elected directors; therefore broker non-votes will not affect the outcome of the election of directors.

Approval of the amendment of the Company’s Amended and Restated Articles of Incorporation, the reincorporation of the Company from Virginia to Maryland, and each of the 3 proposed provisions of the proposed articles of incorporation under Maryland law in connection with such reincorporation will each require the approval of the holders of at least a majority of the outstanding shares of common stock and the Series C convertible preferred stock voting together as a single class. Abstentions and broker non-votes have the same effect as a vote against the proposals.

With regard to any other matter, shareholders may vote in favor, vote against or abstain from voting on the matter. Approval of such a matter requires more votes cast “for” the matter than votes cast “against” the matter. Thus, although abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business, they are generally not counted for purposes of determining if a proposal has been approved.

SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of our common stock and preferred stock as of April 22, 2014 by the following persons (a) each shareholder known to us to beneficially own more than 5% of the outstanding shares of our common stock, (b) each director, (c) each executive officer named in the Summary Compensation Table and (d) all directors and executive officers as a group. A person has beneficial ownership over shares if he or she has or shares voting or investment power over the shares, or the right to acquire that power within 60 days of April 22, 2014.

With respect to our continuing qualification as a real estate investment trust, our Articles of Incorporation contain an ownership limitation, which prohibits both direct and indirect ownership of more than 9.9% of the outstanding shares of our common stock or 9.9% of any series of our preferred stock. Our Articles of Incorporation permit the Board of Directors, in its sole discretion, to exempt a person from this ownership limit if the person provides representations and undertakings that enable the Board to determine that granting the exemption would not result in Supertel losing its qualification as a REIT. Under the Internal Revenue Service rules, REIT shares owned by certain entities are considered owned proportionately by owners of the entities for REIT qualification purposes. The holder of the Series C convertible preferred stock provided representations and undertakings necessary for the Board to grant such an exemption, including a representation that no individual will own 9.9% or more of any class of Supertel stock (per IRS definitions) as a result of the holder's acquisition of the Series C convertible preferred stock and related warrants for the purchase of common stock.

Name of Beneficial Owner	**Title of Class**	**Amount and Nature of Beneficial Ownership**		**Percent of Class (1)**
Real Estate Strategies L. P. 2 Church Street Hamilton DO HM CX, Bermuda	Series C convertible preferred stock	3,000,000	(2)	100 %
	common stock	1,488,556	(2)	34.0 %
Mark H. Tallman P.O. Box 4397 Lincoln, NE 68504	common stock	289,704	(3)	9.9 %
2nd Market Capital Advisory Corp. 650 N. High Point Road Madison, WI 53717	Series A preferred stock	73,287	(4)	9.12 %
William C. Latham	common stock	117,951	(5)	4.0 %
Kelly A. Walters	common stock	41,125	(6)	1.4 %
	Series B preferred stock	2,604		
George R. Whittemore	common stock	17,063	(7)	
John M. Sabin	common stock	3,926		
James H. Friend	common stock	1,621		
Donald J. Landry	common stock	3,264		
Daniel R. Elsztain	common stock	2,176		
Corrine L. Scarpello	common stock	12,750	(8)	
	Series B preferred stock	225		
Patrick E. Beans	common stock	0		
Jeffrey W. Dougan	common stock	3,125		
All directors and executive officers as a group (10 persons)	common stock	203,001	(9)	7.0 %
	Series B preferred stock	2,829		

(1) Unless otherwise indicated, beneficial ownership of any named individual does not exceed 1% of the outstanding class of securities. In calculating the indicated percentage, the denominator includes the shares of common stock that would be acquired by the person through the exercise of options or warrants. The denominator excludes the shares of common stock that would be acquired by any other person upon such exercise.

(2) Real Estate Strategies L.P., an investment vehicle indirectly controlled by IRSA Inversiones y Representaciones Sociedad Anónima ("IRSA"), an Argentinean-based publicly traded company, acquired 3,000,000 shares of Series C convertible preferred stock and 30,000,000 warrants from Supertel in a private placement in February 2012. Up to 30,000,000 shares of common stock may be issued upon conversion of the Series C convertible preferred stock, and up to 30,000,000 shares of common stock may be issued upon the exercise of the warrants. Real Estate Strategies L.P. and its affiliates' beneficial ownership of voting stock at any time is limited to 34% of the issued and outstanding voting stock of Supertel, notwithstanding preferred voting or conversion rights or warrant exercise rights. "Voting stock" includes the common stock, and means capital stock having the power to vote generally for the election of directors of Supertel. The maximum number of shares that Real Estate Strategies L.P. is entitled to receive on April 1, 2014 through the conversion of shares of Series C convertible preferred stock or warrants held by it to purchase common stock is 1,476,833 shares.

Based on information appearing in Form 4's and on Amendment No. 1 to a Schedule 13D filed by the Elsztain Group with the Securities and Exchange Commission on February 17, 2012, the Elsztain Group, which includes Real Estate Strategies L.P., has shared voting and shared dispositive power over 11,723 shares of common stock and the 3,000,000 shares of Series C convertible preferred stock. The Elsztain Group, for purposes of Section 13(d)(3) of the Exchange Act, consists of Eduardo S. Elsztain, and the following entities controlled, either directly or indirectly, by Mr. Elsztain: Consultores Assets Management S.A., Consultores Venture Capital Uruguay S.A., Agroinvestment S.A., Idalgir S.A., Consultores Venture Capital Ltd., Ifis Limited, Inversiones Financieras del Sur S.A., Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria, IRSA, Tyrus S.A., Jiwin S.A., Efanur SA and Real Estate Strategies L.P.

(3) Based solely on Schedule 13G filed by the beneficial owner with the SEC on January 31, 2014.

(4) Based solely on Schedule 13G filed by the beneficial owner with the SEC on February 13, 2014.

(5) Includes 107,951 shares of common stock held by Budget Motels, Inc.

(6) Includes 8,125 shares of common stock which Mr. Walters has the rights to acquire through the exercise of options.

(7) Includes 5,772 shares of common stock owned by Mr. Whittemore's wife.

(8) Includes 7,188 shares of common stock which Ms. Scarpello has the right to acquire through the exercise of options.

(9) Includes 15,313 shares of common stock which the directors and executive officers have the right to acquire through the exercise of options.

CORPORATE GOVERNANCE

Independence

The Company's Articles of Incorporation and the Nasdaq Stock Market listing standards each require that a majority of the Board of Directors are independent directors. The Articles of Incorporation defines an independent director as a person who is not an officer or employee of the Company or an affiliate of (a) any advisor to the Company under an advisory agreement, (b) any lessee of any property of the Company, (c) any subsidiary of the Company, or (d) any partnership which is an affiliate of the Company.

The Nasdaq Stock Market listing standards defines an independent director as a person other than an executive officer or employee of the Company or any other individual having a relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The following persons are not considered independent under the listing standards:

- a director who is, or at any time during the past three years was, employed by the Company or by any parent or subsidiary of the Company;

- a director who accepted or who has a family member who accepted any compensation from the Company in excess of $120,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:
    - compensation for Board or Board committee service;
    - compensation paid to a family member who is an employee (other than an executive officer) of the Company ; or
    - benefits under a tax-qualified retirement plan, or non-discretionary compensation;
- a director who is a family member of an individual who is, or at any time during the past three years was, employed by the Company as an executive officer;
- a director who is, or has a family member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or $200,000, whichever is more, other than the following:
    - payments arising solely from investments in the Company's securities; or
    - payments under non-discretionary charitable contribution matching programs;
- a director who is, or has a family member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Company serve on the compensation committee of such other entity; or
- a director who is, or has a family member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

Board of Directors

The current eight-member Board of Directors is comprised of a majority of independent directors, as defined by the Nasdaq Stock Market listing standards and the Company's Articles of Incorporation. The Board of Directors has determined that the following directors are independent under the Company's Articles of Incorporation and the Nasdaq Stock Market listing standards: Messrs. Elsztain, Friend, Latham, Landry, Sabin, and Whittemore.

The Board of Directors held fourteen meetings in 2013. During 2013, all directors attended at least 75% of all Board meetings and meetings of the committees on which they served. The non-employee directors met in executive session at three board meetings in 2013 without management present, and intend to meet in executive session without management present at future board meetings.

The Company has not adopted a formal policy on Board members' attendance at its annual meetings of shareholders, although all Board members are encouraged to attend and historically most have done so. All Board members attended the Company's 2013 Annual Meeting of Shareholders.

The Company's Board of Directors has an Investment Committee, Compensation Committee, Nominating Committee and an Audit Committee. The Board of Directors may, from time to time, form other committees as circumstances warrant. Such committees have the authority and responsibility delegated to them by the Board of Directors.

Board Leadership and Risk Oversight

The Board leadership structure consists of a non-employee Chairman, which the Board believes is appropriate for the Company at this time. The Board of Directors is primarily responsible for overseeing the Company's risk management processes. This responsibility has been delegated by the Board of Directors to the Audit Committee and the Compensation Committee, each with respect to the assessment of the Company's risks and risk management in its respective areas of oversight.

Compensation Committee

The Compensation Committee currently consists of Messrs. Whittemore (Chairman) and Sabin. Mr. Dayton served until his resignation in October 2013. All current members and prior 2013 members of the Compensation Committee are independent within the meaning of the Nasdaq Global Market listing standards. This committee makes recommendations to the Board regarding executive compensation policy, the actual compensation of Directors and executive officers, and any benefit plans for the Company's management team. The Compensation Committee held four meetings during 2013. The committee operates pursuant to a written charter adopted by the Board of Directors. A copy of the charter is available on our website at www.supertelinc.com in the Investor Relations section under "Governance Docs."

Nominating Committee

The Nominating Committee currently consists of Messrs. Latham (Chairman), Friend and Landry. Mr. Landry was appointed to the Nominating Committee in April 2014. The committee operates pursuant to a written charter adopted by the Board of Directors. A copy of the charter is available on our website at www.supertelinc.com in the Investor Relations section under "Governance Docs."

Under its charter, the Nominating Committee is to consist of not less than three members. Each member of the Nominating Committee is independent within the meaning of the Nasdaq Stock Market listing standards.

The Nominating Committee is responsible for selecting those individuals to recommend to the entire Board of Directors for election to the board. The Nominating Committee will consider shareholder nominations for directors if made (1) in writing by a shareholder entitled to vote in the election of Directors generally and (2) pursuant to the company bylaws. In order to be considered, in accordance with the Company's bylaws, shareholder nominations must be received by the Secretary, at the Company's principal office in Norfolk, Nebraska, not later than (1) with respect to an election to be held at an annual meeting of shareholders, 90 days in advance of such meeting, and (2) with respect to an election to be held at a special meeting of shareholders for the election of Directors, the close of business on the 7th day following the date on which notice of such meeting is first given to shareholders.

In order to be valid, a shareholder nomination must set forth (1) the name and address of the shareholder who intends to make the nomination; (2) the name and address of the person or persons to be nominated; (3) a representation that the shareholder is a record holder of stock of the Company entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (4) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such persons) pursuant to which the shareholder is making the nomination; (5) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (6) the written consent of each nominee to serve as a director if elected. Any candidates submitted by a shareholder or shareholder group are reviewed and considered in the same manner as all other candidates.

The Nominating Committee identifies director nominees through a combination of referrals, including by management, existing board members and shareholders, and direct solicitations, where warranted. Once a candidate has been identified the Nominating Committee reviews the individual's experience and background, and may discuss the proposed nominee with the source of the recommendation. If the committee believes it to be appropriate,

committee members may meet with the proposed nominee before making a final determination whether to recommend the individual as a nominee to the entire Board of Directors to stand for election to the board.

Among the factors that the committee considers when evaluating proposed nominees are their experience in the hospitality industry and knowledge of and experience in business matters, finance, capital markets and mergers and acquisitions. The committee may request references and additional information from the candidate prior to reaching a conclusion. The committee is under no obligation to formally respond to recommendations, although as a matter of practice, every reasonable effort is made to do so.

The Nominating Committee received no shareholder recommendations for nomination to the Board of Directors in connection with the 2014 Annual Meeting. The Nominating Committee held one meeting during 2013.

Audit Committee

The Audit Committee currently consists of Messrs. Sabin (Chairman), Friend, and Whittemore. All members of the Audit Committee are independent within the meaning of the Nasdaq Stock Market listing standards. The Audit Committee is responsible for the engagement of the independent registered public accounting firm, reviews with the independent registered public accounting firm the plans and results of the audit engagement, approves professional services provided by the independent registered public accounting firm, reviews the independence of the independent registered public accounting firm, considers the range of audit and non-audit fees and reviews the adequacy of the Company's internal accounting controls. The Audit Committee pre-approves all audit and non-audit services performed by the independent auditor. The Board of Directors has determined that Messrs. Sabin and Whittemore are audit committee financial experts within the meaning of regulations of the Securities and Exchange Commission (the "SEC"). The Audit Committee operates pursuant to a written charter adopted by the Board of Directors. A copy of the charter is available on our website at www.supertelinc.com in the Investor Relations section under "Governance Docs." The Audit Committee held six meetings during 2013. The Audit Committee has a written policy with respect to its review and approval or ratification of transactions between the Company and a director, executive officer or related person covered by the SEC's rule S-K 404(a).

Investment Committee

The Investment Committee currently consists of Messrs. Landry (Chairman), Elsztain, Sabin, Walters, and Whittemore. The committee met eight times in 2013. The Investment Committee's primary responsibility is to review and approve or reject the Company's proposed acquisition and divestiture of hotel properties, other investments in hotel properties, or other Company assets. The committee approves guidelines and processes for acquisitions to be presented to the Board of Directors, makes recommendations to the Board and senior management regarding acquisitions, reviews due diligence and financial analysis for hotel acquisition, divestiture and investments, and makes recommendations on the Board's acquisition and divestment strategies. The committee has the authority to approve hotel acquisitions within the purchase price authority as set by the Board from time to time, and to approve of any hotel divestiture in accordance with divestiture strategy established by the Board. The committee operates pursuant to a written charter adopted by the Board in March 2012. A copy of charter is available on our website at www.supertelinc.com in the Investor Relations section under "Governance Docs."

Shareholder Communications with the Board of Directors

The Company provides an informal process for shareholders to send communications to the Board of Directors. Shareholders who wish to contact the Board of Directors or any of its members may do so in writing to Board of Directors, Supertel Hospitality, Inc., 1800 West Pasewalk Avenue, Suite 200, Norfolk, NE 68701. Correspondence directed to an individual board member will be referred to that member. Correspondence not directed to a particular board member will be referred to the Chairman of the Board.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee was an officer or employee of the Company or any of its subsidiaries during 2013. Mr. Whittemore was an executive officer of the Company from November 2001 to August 2004. No executive officer of the Company served as a member of the compensation committee or as a

director of any company where an executive officer of such company is a member of the Compensation Committee or is a director of the Company.

Certain Relationships and Related Transactions

Purchase Agreement and Series C Convertible Preferred Stock. On November 16, 2011, with the unanimous approval of the Board of Directors, the Company and Supertel Limited Partnership entered into a Purchase Agreement (the "Purchase Agreement") with Real Estate Strategies L.P., a Bermuda limited partnership ("RES"), for the purchase from the Company of up to 3 million shares of Series C convertible preferred stock. RES is an affiliate of IRSA Inversiones y Representaciones Sociedad Anónima, a publicly-traded company (NYSE: "IRS") based in Buenos Aires, Argentina ("IRSA"). The Company issued an aggregate of 3,000,000 shares of Series C convertible preferred stock to RES for $30 million in closings on February 1 and February 15, 2012.

The Series C convertible preferred stock is convertible, at the option of the holder, at any time into common stock at a conversion price of $8.00 for each share of common stock, which is equal to the rate of 1.25 shares of common stock for each share of Series C convertible preferred stock. A holder of Series C convertible preferred stock will not have conversion rights to the extent the conversion would cause the holder and its affiliates to beneficially own more than 34% of voting stock (the "Beneficial Ownership Limitation"). "Voting stock" means capital stock having the power to vote generally for the election of directors of the Company.

The Series C convertible preferred stock will vote with the common stock as one class, subject to certain voting limitations. For any vote, the voting power of the Series C convertible preferred stock will be equal to the lesser of: (a) 0.78625 vote per share, or (b) an amount of votes per share such that the vote of all shares of Series C convertible preferred stock in the aggregate equal 34% of the combined voting power of all the Company voting stock, minus an amount equal to the number of votes represented by the other shares of voting stock beneficially owned by RES and its affiliates (the "Voting Limitation").

As long as RES has the right to designate two or more directors to the Company Board of Directors pursuant to the Directors Designation Agreement (described below), the following requires the approval of RES and IRSA:

- the merger, consolidation, liquidation or sale of substantially all of the assets of the Company;
- the sale by the Company of common stock or securities convertible into common stock equal to 20% or more of the outstanding common stock or voting stock; or
- any Company transaction of more than $120,000 in which any of its directors or executive officers or any member of their immediate family will have a material interest, exclusive of employment compensation and interests arising solely from the ownership of the Company equity securities if all holders of that class of equity securities receive the same benefit on a pro rata basis.

Warrants. On February 1, 2012 and February 15, 2012, with the unanimous approval of the Board of Directors and in connection with the purchase of the Series C convertible preferred stock, the Company issued and RES received warrants ("Warrants") to purchase 3,725,000 shares of the Company's common stock. Subject to the Beneficial Ownership Limitation, the Warrants are exercisable at any time on or before January 31, 2017 at an exercise price of $9.60 per share of common stock. The exercise price may be paid in cash, or the holder may also elect to pay the exercise price by having the Company withhold a sufficient number of shares from the exercise with a market value equal to the exercise price.

Investor Rights and Conversion Agreement. The Company, with the unanimous approval of the Board of Directors, entered into an Investor Rights and Conversion Agreement (the "Investor Rights and Conversion Agreement") dated February 1, 2012 with RES and IRSA pursuant to which the Company granted RES and its affiliates and their respective subsidiaries, among other rights, the right to purchase equity shares or securities convertible into equity shares in future Company offerings on a pro rata basis based on their combined ownership of common stock and Series C convertible preferred stock, provided that such purchase would not cause RES and its

affiliates to exceed the Beneficial Ownership Limitation. In the agreement, RES agreed to certain standstill provisions including that neither RES nor its affiliates will acquire any securities that would result in RES and its affiliates owning more than 34% of the voting stock of the Company.

Registration Rights Agreement. The Company, with the unanimous approval of the Board of Directors, entered into a registration rights agreement (the "Registration Rights Agreement") dated February 1, 2012 with RES and IRSA. The Registration Rights Agreement requires the Company to register for resale by the holders the common stock issued upon conversion of the Series C convertible preferred stock and upon exercise of the Warrants, and the Warrants and the Series C convertible preferred stock. The Registration Rights Agreement also grants RES the right to participate in certain future underwritten offerings of securities by the Company.

Directors Designation Agreement. The Company, with the unanimous approval of the Board of Directors, entered into a directors designation agreement (the "Directors Designation Agreement") dated February 1, 2012 with RES and IRSA pursuant to which the Company will appoint up to four directors designated by RES and IRSA to the Company Board of Directors. See "Item 1. Election of Directors" below.

Loan Agreement. On January 9, 2014, the Company entered into a loan agreement with RES, whereby the Company may borrow up to $2,000,000 from time to time in revolving loans, subject to the conditions therein. In the event the Company does not complete a rights offering of common stock on or before April 15, 2014, RES has the option until July 9, 2015, the maturity date of the loan agreement, subject to any ownership limitations RES may then be subject to, to convert up to $2,000,000 of the loan into a number of shares of common stock of the Company (the "Loan Conversion") determined at the rate per share equal to the greater of (a) the average weighted price of the common stock of the Company for the five trading days preceding the day RES exercises the Loan Conversion, or (b) $1.74 per share, the greater of book or market value of the common stock at the time, and as determined, with respect to Nasdaq Marketplace Rule 5635(d).

ITEM 1. ELECTION OF DIRECTORS

Nominees for Directors

The Company's articles of incorporation provide that the Board of Directors can set the number of directors, but also provide that the Board of Directors must have no less than three nor more than nine directors. The Board of Directors is presently comprised of eight members. Eight directors will be elected at the Annual Meeting and will serve a term expiring at the next annual meeting or until a successor is selected. Each of the nominees is currently a director and has served continuously since joining the Board.

The Board of Directors has no reason to doubt the availability of the nominees, and all have indicated their willingness to serve as a director of the Company if elected. If any nominee becomes unavailable or unwilling to serve as a director for any reason, the person named as proxy on the Proxy Card is expected to consult with the Nominating Committee of the Company in voting the shares represented by the proxies, including voting for a substitute nominee.

In connection with a $30 million investment by RES in the Series C convertible preferred stock, the Company and RES entered into Directors Designation Agreement dated February 1, 2012. Pursuant to the agreement, RES may appoint up to four directors for the Board of Directors based on RES's voting power on a fully diluted basis (exclusive of the warrants held by RES). RES may appoint the following number of directors if it owns the indicated percentage of voting power:

Voting Power	No. of Directors
34%	4
22% or more but less than 34%	3
14% or more but less than 22%	2
7% or more but less than 14%	1

Pursuant to the designation of RES, Messrs. Elsztain, Friend, and Sabin have been nominated for election as members of the Board.

RES has agreed to vote for the election of Messrs. Borgmann, Dayton, Latham, Walters and Whittemore and their successors as nominated by the Nominating Committee of the Board. Mr. Dayton resigned from the Board in October 2013 and Mr. Borgmann resigned from the Board in March 2014. One of the directors designated by RES will be appointed to the Nominating Committee. As long as RES beneficially owns 7% or more of the voting power of the capital stock of the Company, the RES designees will be nominated and recommended for election at each annual meeting of the Company stockholders.

The names of the director nominees, and certain information about them, are set forth below.

Daniel R. Elsztain, *Director*. Mr. Elsztain, age 41, obtained a degree in Economic Sciences from the Torcuato Di Tella University and has a Masters in Business Administration from the Austral IAE University. At present, he is a member of the board of IRSA Inversiones y Representaciones Sociedad Anónima ("IRSA"), a real estate public company listed both on the New York Stock Exchange ("NYSE") and the Buenos Aires Stock Exchange ("BASE"), as well as its Chief Operating Officer and other executive capacities since 2004. He is a board member of Alto Palermo S.A. (APSA), a retail public company listed both on NASDAQ and BASE. His extensive experience in IRSA's real estate operations and his participation on other public company boards provides the Board with a source of substantial lodging and real estate knowledge.

Committees: Investment

James H. Friend, *Chairman of the Board.* Mr. Friend, age 62, has been president and CEO of Friend Development Group, LLC since 1997 and has been actively involved in the hotel and real estate business for more than 26 years. Mr. Friend has extensive experience in the development process, including ground-up development, renovations, adaptive re-use and mixed-use developments. He has particular expertise developing and financing complicated real estate projects in urban and suburban areas. Mr. Friend has arranged financing for hotel and other real estate projects in excess of $500 million. He has worked closely with all major hotel brands, including Hilton, Marriott, Hyatt, Starwood, Intercontinental, Wyndham and Choice. He also has experience working with numerous luxury and independent luxury hotel brands as well as with branded and unbranded boutique hotels. Mr. Friend has partnered with major institutions, investment funds, high net worth families and significant hotel investment groups. He has advised NYSE companies, REIT's, banks, hedge funds and privately held companies in a wide range of real estate product types, including hotels, retail, assisted living, multi-family and mixed-use development.

Mr. Friend is a graduate of Stanford University and the Northwestern University School of Law. He is a member of the Bar of the State of New York. He has served on various philanthropic boards, including the board of directors of the Stanford Alumni Association and currently is the chairman of the Stanford New York Alumni Board. He also has served as an adjunct professor at the Tisch Center for Hospitality, Tourism and Sports Management at New York University.

Mr. Friend's years of work in the hotel and real estate industry provides the Board with a diverse and unique source of hotel and real estate knowledge.

Committees: Audit, Nominating

Donald J. Landry, *Director.* Mr. Landry, age 65, is president and owner of Top Ten, an independent hospitality industry consulting company. Mr. Landry has over forty five years of lodging and hospitality experience in a variety of leadership positions. Most recently, Mr. Landry was the Chief Executive Officer, President and Vice Chairman of Sunburst Hospitality Inc. Mr. Landry has also served as President of Choice Hotels International, Inc., Manor Care Hotel Division and Richfield Hotel Management. Mr. Landry currently serves on the corporate advisory boards of Campo Architects, UniFocus and Windsor Capital Group, Quantum Leap and numerous nonprofit boards. Mr. Landry is a member of the board of trustees of Hersha Hospitality Trust. Mr. Landry is a frequent guest lecturer at the University of New Orleans where he serves on the board of the School of Hospitality, Restaurant and Tourism. Mr. Landry holds a bachelor of science from the University of New Orleans, which awarded him Alumnus of the Year in 1999. Mr. Landry is a Certified Hotel Administrator.

Mr. Landry's 45 years of experience in the lodging and real estate industries, including his roles as Chief Executive Officer, President and Vice Chairman of Sunburst Hospitality Inc. and President of Choice Hotels International, Inc., Manor Care Hotel Division and Richfield Hotel Management provides the Board with an experienced source on lodging and real estate industries.

Committee: Investment, Nominating

William C. Latham, *Director*. Mr. Latham has served as a director of the Company since December 2008. Mr. Latham, age 80, is the founder and Chairman of the Board of Budget Motel, Inc. since 1972. Budget Motel, Inc. owns and operates multiple hotels in several states. Mr. Latham was previously a member of the Board of Directors and served as Chairman of the Commonwealth Savings and Loan Association in Manassas, Virginia. Mr. Latham currently sits on several advisory boards and is an active member of the Virginia Tech Foundation's Board of Directors and its audit committee. Mr. Latham is a graduate of Virginia Polytechnic Institute. He has been active in the ownership and management of hotels since 1972 and, as a veteran of hotel operations and with many years of experience from serving on business and advisory boards, he provides the Board with a significant experienced resource for Company operations.

Committee: Nominating

John M. Sabin, *Directo*r. Since May 2011, Mr. Sabin, age 59, has been the Executive Vice President and Chief Financial Officer of Revolution LLC as well as the Chief Financial Officer of The Stephen Case Foundation and the Case Family Office. Previously he was the Chief Financial Officer and General Counsel of Phoenix Health Systems, Inc. a private healthcare information technology outsourcing and consulting firm, from October 2004 to May 2011. Mr. Sabin was the Chief Financial Officer, General Counsel and Secretary of NovaScreen Biosciences Corporation, a private bioinformatics and contract research biotech company, from January 2000 to October 2004. Prior to joining NovaScreen, Mr. Sabin served as a finance executive with Hudson Hotels Corporation, Vistana, Inc., Choice Hotels International, Inc., Manor Care, Inc. and Marriott International, Inc. all of which were public companies at the time of his service. In his professional life Mr. Sabin has had commercial lease experience with a national law firm, transactional real estate experience with national hospitality and health care firms, commercial real estate financing experience, IPO experience, as well as experience as an audit committee and board member of several other public companies. Mr. Sabin is a member of the board of trustees of Hersha Hospitality Trust. Mr. Sabin has received Bachelor of Science degrees in Accounting and in University Studies; a Masters of Accountancy and a Masters in Business Administration from Brigham Young University, and he also received a Juris Doctor from the J. Reuben Clark Law School at Brigham Young University. Mr. Sabin is a licensed CPA and is admitted to the bar in several states.

Mr. Sabin's qualifications include substantial hospitality industry experience, as well as his substantial legal, finance and accounting experience. His current and prior service as both General Counsel and Chief Financial Officer of various companies provides the Board with valuable insights with respect to finance, accounting, legal and corporate governance matters.

Committees: Audit, Compensation, Investment

Corrine L. Scarpello, *Director, Senior Vice President and Chief Financial Officer*. Ms. Scarpello became Chief Financial Officer of the Company on August 31, 2009. She joined the Company in November 2005 having

worked for a year as a consultant for the Company and its management company. Ms. Scarpello, age 60, previously worked for Mutual of Omaha for 17 years, serving as the Vice President of Accounting and Administration for a subsidiary and as Manager in their mergers and acquisitions department. Ms. Scarpello also has accounting and auditing experience with PricewaterhouseCoopers (formerly Coopers and Lybrand) and is a CPA. Ms. Scarpello is currently a director of Nature Technology Corp., a biotech company. Ms. Scarpello is a graduate of the University of Nebraska at Omaha. Ms. Scarpello is a significant resource for the Board in its deliberations with her many years of experience in accounting and finance and extensive experience with the Company's operations.

Kelly A. Walters, *Director, President and Chief Executive Officer.* Mr. Walters joined the Company and became President and Chief Executive Officer on April 14, 2009. Mr. Walters, age 53, is a former Senior Vice President from October 2006 to April 2009 for North Dakota-based Investors Real Estate Trust (IRET), a self-advised equity real estate investment trust. Prior to IRET, he was Senior Vice President and Chief Investment Officer from 1993 to 2006 of Omaha-based Magnum Resources, Inc., a privately held real estate investment and operating company. Preceding Magnum Resources, Mr. Walters was an officer and senior portfolio manager at Brown Brothers Harriman & Company in Chicago. He also held investment positions with Peter Kiewit Sons' Inc. Mr. Walters is currently a director of Bridges Investment Fund Inc., a publicly traded mutual fund. He holds a B.S.B.A. degree in banking and finance from the University of Nebraska at Omaha and an EMBA from the University of Nebraska. Mr. Walters' experience with real estate investment trusts and many years of experience in real estate investment provides the Board with extensive knowledge of the operation of real estate investment trusts and real estate investments.

Committee: Investment

George R. Whittemore, *Director.* Mr. Whittemore has served as a director of the Company since November 1994. Mr. Whittemore, age 64, retired, served as President and Chief Executive Officer of the Company until August 15, 2004. Mr. Whittemore served as Senior Vice President and director of both Anderson & Strudwick, Incorporated, a brokerage firm based in Richmond, Virginia, and Anderson & Strudwick Investment Corporation, from October 1996 until October 2001. Anderson & Strudwick has served as an underwriter for Company public stock offerings. He served as a director and the President and Managing Officer of Pioneer Federal Savings Bank and its parent, Pioneer Financial Corporation, from September 1982 until August 1994, when these institutions were acquired by a merger with Signet Banking Corporation (now Wells Fargo Corporation). Mr. Whittemore was appointed President of Mills Value Adviser, Inc., a registered investment advisor, in April 1996. Mr. Whittemore is currently a director of Village Bank & Trust in Richmond, Virginia. He is also a director of Lightstone Value Plus Real Estate Investment Trust, Inc. and Lightstone Value Plus Real Estate Investment Trust II, Inc. and serves on the audit committee of these two companies. Mr. Whittemore is a graduate of the University of Richmond. Mr. Whittemore's experience as a director of real estate trusts and as a former chief executive of the Company provides significant assistance to the Board in the oversight of Company business and the conduct of Company operations as a real estate investment trust.

Committees: Audit, Compensation, Investment

Unless authority for the above nominees is withheld, the person named as proxy on the Proxy Card will vote the shares represented by the enclosed proxy card, if executed and returned, "for" the election of the nominees named above.

The Board of Directors Unanimously Recommends a Vote "FOR" each of the Nominees.

COMPENSATION DISCUSSION AND ANALYSIS

The following compensation discussion and analysis provides information which the Compensation Committee of the Board of Directors (the "Committee") believes is relevant to an assessment and understanding of compensation awarded to, earned by or paid to the Company's executive officers listed in the summary compensation table (named executive officers). This discussion should be read in conjunction with the summary compensation table and related tables below. Mr. Dayton resigned from the Board of Directors (the "Board") and the Committee on October 9, 2013.

Compensation Overview and Objective. The Committee has the responsibility for developing and maintaining an executive compensation policy for named executive officers that creates a direct relationship between pay levels and corporate performance and returns to shareholders. The objective of the Company's compensation program is to attract and retain a high caliber of management who will manage the Company in a manner that will promote its goals to achieve long term profitability and to advance the interest of the Company's shareholders. The Committee believes that the performance in 2013 of the named executive officers indicate their commitment to achieving such goals for the Company and its shareholders. The compensation program for named executive officers seeks to achieve the objective of retaining a high caliber of management by:

- providing overall competitive pay levels,
- creating proper incentives to enhance shareholder value,
- rewarding superior performance, and
- compensating at levels that are justified by the returns available to shareholders.

Compensation Practices. The Committee reviews and evaluates the performance of the executive officers during the year, and will award cash bonuses or long-term incentives for significant performance.

The Company adopted the Supertel 2006 Stock Plan in 2006 for the benefit of its named officers and other employees. The plan, approved by the Company shareholders, is the only equity based compensation plan adopted by the Company. The Company does not have a pension plan. The Company's executive officers may participate in its 401(k) Plan on the same terms as other participating employees. The Company does not maintain a perquisite program for its executive officers.

Employment Agreements

In connection with the $30 million investment by Real Estate Strategies L.P. ("RES") in preferred stock of the Company, the Company entered into employment agreements, approved by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") on February 1, 2012 with Kelly A. Walters, President and Chief Executive Officer, and Corrine L. Scarpello, Senior Vice President and Chief Financial Officer. The agreements maintain the named executive's 2011 base salaries. The Company entered into an employment agreement, approved by the Compensation Committee, with Jeffrey W. Dougan on July 15, 2013 with the commencement of his employment as the Company's Chief Operating Officer. Under the agreement Mr. Dougan receives an annual base salary of $190,000, and was paid a cash signing bonus of $25,000 and a relocation expense reimbursement of up to $25,000.

The employment agreements provide that base salaries will be reviewed annually and further provide that the executives will be considered for cash bonuses and option grants annually. Any such bonus is to be based on the recommendation of the Compensation Committee and any such option grant is to be made in the sole discretion of the Compensation Committee. One-third of the severance will be paid in the form of the Company's equity to the extent available from shareholder approved plans. The employment agreements of Mr. Walters and Ms. Scarpello terminate on January 31, 2015. The employment agreement of Mr. Dougan continues until July 14, 2015 and thereafter until terminated by the Company or Mr. Dougan.

Components of Compensation. The Company's executive compensation has three components, each of which is intended to support the overall compensation objective of retaining a high caliber of management. The three components are base salary, annual bonuses, and equity incentives. Since 2006, the Company has had the ability to use equity incentives in the compensation program for named executive officers. The Company paid cash and equity compensation in 2013 to its named executive officers.

Base Salary. Base salary is targeted to be competitive to attract and retain executives qualified to manage a hotel REIT. Base salary is intended to compensate the executive for satisfying the requirements of the position. Salaries for executive officers are typically reviewed by the Compensation Committee on an annual basis and may be changed based on the individual's performance or a change in competitive pay levels in the marketplace.

Historically the Compensation Committee reviews with the Chief Executive Officer an annual salary plan for the Company's executive officers (other than the Chief Executive Officer). The salary plan is modified as deemed appropriate and approved by the Compensation Committee. The annual salary plan is developed by the Chief Executive Officer and is based on his judgment as to the past and expected future contributions of the individual executive. The Compensation Committee reviews and establishes the base salary of the Chief Executive Officer based on the Compensation Committee's assessment of his past performance, leadership in the conduct of the Company's business, and its expectation as to his future contribution in directing the long-term success of the Company.

The Compensation Committee has not reviewed executive salaries for 2014, and executive base salaries remain unchanged from 2013 levels.

Annual Bonuses. No discretionary cash bonuses were awarded to the named executive officers in 2013.

Equity Incentive Plan. Equity stock incentives are provided primarily through grants of stock options to executive officers pursuant to the shareholder approved Company 2006 Stock Plan. The Committee recognizes the value of equity incentives in assisting the Company in the hiring and retaining of management personnel and in enhancing the long-term mutuality of interest between the Company shareholders and its directors, officers and employees. Stock options are granted at the market value on the date of the grant and have value only if the Company's stock price increases. Employees must be employed by the Company at the time of vesting in order to exercise the options.

No equity awards were granted under the Company 2006 Stock Plan to the named executive officers in 2013. Stock options for 25,000 shares of common stock and 25,000 shares of restricted common stock were granted to Mr. Dougan as an inducement material to Mr. Dougan's acceptance of employment with the Company, outside of the Company 2006 Stock Plan.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussion, has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

COMPENSATION COMMITTEE

George R. Whittemore, *Chairman*

John M. Sabin

Summary Compensation Table

Name and Principal Position	*Year*	*Salary($)*	*Bonus (S)*	*Stock Awards ($)(1)*	*Option Awards ($) (1)*	*All Other Compensation ($)(2)*	*Total ($)*
Kelly A. Walters	2013	290,000	0	0	0	10,200	300,200
Chief Executive Officer	2012	262,000	0	22,500	9,750	36,300	330,550
	2011	262,000	0	0	0	37,800	299,800
Corrine L. Scarpello	2013	200,100	0	0	0	8,408	208,508
Chief Financial Officer	2012	200,100	0	18,000	7,800	8,004	233,904
	2011	200,100	0	0	0	8,004	208,104
Jeffrey W. Dougan (3) Chief Operating Officer	2013	84,038	25,000	22,750	5,000	4,362	141,150
Steven C. Gilbert (4)	2013	144,000	0	0	0	5,760	149,760
Former Chief Operating	2012	144,000	0	0	0	5,760	149,760
Officer	2011	144,000	0	0	0	5,760	149,760
Patrick E. Beans (5) Senior Vice President and Treasurer	2013	133,846	0	0	0	5,354	139,200

(1) These columns reflect the grant date fair value of the stock awards and stock options granted in accordance with FASB Accounting Standards Codification Topic 718. See footnote 12 to the Company's consolidated financial statements for the assumptions used in the valuation of these awards.

(2) Amounts for the named executive officers represent contributions credited by the Company during 2013, 2012, and 2011 to its 401(k) plan. Amount for Mr. Walters also includes director fees of $26,500 and $28,000, respectively, earned by him during 2012 and 2011. Mr. Walters no longer receives director fees starting in 2013.

(3) Mr. Dougan became our Chief Operating Officer in July 2013. Mr. Dougan was paid a signing bonus of $25,000 on July 15, 2013 with the commencement of his employment at the Company.

(4) Mr. Gilbert retired in December 2013.

(5) Mr. Beans became our Senior Vice President and Treasurer in March 2013.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards				Stock Awards	
Name	***Number of Securities Underlying Unexercised Options (#) Exercisable***	***Number of Securities Underlying Unexercised Options (#) Unexercisable (1)***	***Option Exercise Price ($)***	***Option Expiration Date***	***Number of Shares or Units of Stock That Have Not Vested (#) (2)***	***Market Value of Shares or Units of Stock That Have Not Vested ($)***
Kelly A. Walters Chief Executive Officer	2,500 3,125	0 0	11.36 7.84	Dec. 2, 2014 Dec 4, 2015	1,563	3,814
Corrine L. Scarpello Chief Financial Officer	2,500 2,500	0 0	11.36 7.84	Dec. 2, 2014 Dec. 4, 2015	1,250	3,050
Steven C. Gilbert Former Chief Operating Officer	2,500	0	11.36	Dec 2, 2014		
Jeffrey W. Dougan Chief Operating Officer	0	3,125	8.08	July 15, 2017	3,125	7,625

(1) The options expiring on July 15, 2017 vest in equal one-third increments on July 15, 2014, 2015 and 2016.

(2) The restricted shares for Mr. Walters and Ms. Scarpello that have not vested will vest on May 22, 2014. The restricted shares for Mr. Dougan that have not vested will vest in one-third increments on July 15, 2014, 2015, and 2016. Market value is based on the closing price of the common stock on December 31, 2013.

Potential Payments Upon Termination or Change-in-Control

The employment agreements with Mr. Walters and Ms. Scarpello provide for the payment of severance in the event the Company terminates employment without cause or the executive terminates employment for good reason. "Cause" for these employment agreements means (a) an unlawful or criminal act by the executive involving moral turpitude or resulting in a financial loss to the Company, or upon conviction of a felony; or (b) subject to certain cure rights of the executive, the executive fails to obey written directions delivered to the executive by the Board or Chief Executive Officer, or the executive commits a material breach of any of the covenants, terms and provisions of the agreement. "Good Reason" means, subject to certain exceptions and cure rights of the Company, the occurrence of one of the following events, without the Employee's prior written consent, (a) a material diminution in the executive's duties or responsibilities or any material demotion of the executive, (b) a requirement that the executive work principally from a location outside the 50 mile radius of the current Company offices in Norfolk, Nebraska or Omaha, Nebraska, (c) a material reduction in the executive's base salary, or (d) upon a change of control of the Company, the Company's failure to obtain an agreement from any successor of the Company to assume the employment agreement.

The employment agreements of Mr. Walters and Ms. Scarpello terminate on January 31, 2015. Their severance payment is three times their base salary. Severance amounts for both executives reduce by six months during each year of employment. One-third of the severance will be paid in the form of the Company's equity to the extent available and permissible under shareholder-approved plans.

The employment agreement with Mr. Dougan provides for the payment of severance in the event the Company terminates employment without cause. "Cause" for this employment agreement means (a) an unlawful or criminal act by the executive involving moral turpitude or resulting in a financial loss to the Company, or upon conviction of a felony; or (b) subject to certain cure rights of the executive, the executive fails to obey written directions delivered to the executive by the Board or Chief Executive Officer, or the executive commits a material breach of any of the covenants, terms and provisions of the agreement. His employment agreement continues until July 14, 2015 and continues thereafter until terminated by either the Company or Mr. Dougan. If he is terminated without cause prior to July 15, 2014, he will receive severance, paid in bi-weekly installments, equal to 12 months of his base salary. If he is terminated without cause on or before July 15, 2015, he will receive severance, paid in bi-weekly installments, equal to 12 months of his base salary, reduced by 1/12th for each month he is employed by the Company after July 15, 2014. One-third of the severance may be paid in the form of the Company's equity to the extent available and permissible under shareholder-approved plans.

If on the last day of fiscal 2013 the Company discharged Mr. Walters, Ms. Scarpello or Mr. Dougan without cause or, in the case of Mr. Walters or Ms. Scarpello, the executive terminated for good reason, then the executives would have received a multiple of their current base salary, aggregating for each such executive: Mr. Walters – $725,010; Ms. Scarpello – $500,250; and Mr. Dougan – $190,000.

The Company's shareholder-approved 2006 Stock Plan provides that all outstanding options become immediately exercisable and restricted stock awards immediately vest in the event of a change in control. Additionally, Mr. Dougan's restricted stock award agreement provides that his restricted stock award immediately vests in the event of a change of control (as defined in the Company 2006 Stock Plan). A change in control, defined in the Company's 2006 Stock Plan, generally occurs if: (i) a person, entity or group (excluding Company plans) acquires 50% or more of the Company's common stock or total voting power of the Company's voting securities; (ii) incumbent directors or their replacements (whose election or nomination was approved by at least a majority of then incumbent directors) cease to constitute a majority of the board; (iii) a reorganization, merger, consolidation, or sale of substantially all of the Company's assets occurs unless the Company's shareholders prior to the transaction own after the transaction 50% or more of the voting power of the Company's securities; and (iv) the Company is liquidated or dissolved. If such a change in control had occurred on the last day of fiscal 2013, the incremental value (fair market value of company common stock on such date less exercise price) of unvested options held by Mr. Walters and Ms. Scarpello would have been: Mr. Walters - $-0- and Ms. Scarpello - $-0-; and the value of unvested restricted stock held by Mr. Walters, Ms. Scarpello and Mr. Dougan would have been: Mr. Walters - $3,814, Ms. Scarpello - $3,050 and Mr. Dougan $7,625. The unvested stock options for such individuals and the unvested restricted stock for such individuals are set forth in the Outstanding Equity Awards at Fiscal Year-End table.

Director Compensation

Name	*Fees Earned or Paid in Cash ($)*	*Stock Awards ($)*	*Option Awards ($)*	*Total ($)*
Steve H. Borgmann*	28,000	0	0	28,000
Allen L. Dayton*	20,989	0	0	20,989
Daniel R. Elsztain	27,500	3,765	0	31,265
James H. Friend	35,000	0	0	35,000
Donald J. Landry	28,000	5,647	0	33,647
William C. Latham	29,500	0	0	29,500
John M. Sabin	31,000	3,765	0	34,765
George R. Whittemore	31,000	3,765	0	34,765

* Mr. Borgmann resigned from the Board of Directors on March 26, 2014. Mr. Dayton resigned from the Board of Directors on October 9, 2013.

Each director in 2013 received an annual retainer of $20,000. Additionally, directors received fees of $1,000 per board meeting attended in person and $500 per telephonic board meeting. Committee chairmen received compensation as follows: Audit Committee chairman annual retainer of $3,000 and Compensation Committee chairman annual retainer of $1,500. Each Audit Committee member, other than the chairman, receives a fee of $375 per quarter. Mr. Friend, also received director fees of $5,500 for multi-day meetings and on-site review of potential hotel acquisitions. The Investment Committee chairman receives a monthly fee of $750. Each member of the Investment Committee who is an independent director, other than the chairman, receives a monthly fee of $500. The fees to the Investment Committee are paid quarterly in arrears in common stock issued under the 2006 Stock Plan, based on a value per share equal to the average of the closing price of the common stock during the first 20 trading days of the year.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors is comprised of three Directors, each of whom satisfies the independence and financial literacy requirements of the Nasdaq Stock Market listing standards. The Board of Directors has determined that Mr. Sabin and Mr. Whittemore are audit committee financial experts (as defined by the Securities and Exchange Commission). The Audit Committee operates under a written charter adopted by the Board of Directors. The Audit Committee reviews and reassesses the charter annually and recommends any changes to the Board for approval. Management is responsible for the Company’s internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the Company’s consolidated financial statements in accordance with U.S. generally accepted auditing standards and for issuing a report thereon. The Audit Committee’s responsibility is to monitor and oversee these processes. In this context, the Audit Committee has met and held discussions with management and KPMG LLP (“KPMG”), the Company’s independent registered public accounting firm for the fiscal year ended December 31, 2013.

Management represented to the Audit Committee that the Company’s consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Audit Committee has reviewed and discussed the audited consolidated financial statements with management and KPMG.

The Audit Committee received from and discussed with KPMG the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant’s communications with the Audit Committee concerning independence. The Audit Committee also discussed with KPMG any matters required to be discussed by Statement on Auditing Standards No. 61, as

amended, as adopted by the Public Company Accounting Oversight Board relating to communications between the Audit Committee and the independent auditors.

Based upon the Audit Committee's discussions with management and KPMG and the Audit Committee's review of the representation of management and the report of KPMG to the Audit Committee, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission.

THE AUDIT COMMITTEE

John M. Sabin, *Chairman*
James H. Friend
George R. Whittemore

ITEM 2. APPROVAL OF AMENDMENT TO THE AMENDED AND RESTATED ARTICLES OF INCORPORATION

The Board of Directors has approved, and recommends that the Company's shareholders approve, an amendment to the Company's Second Amended and Restated Articles of Incorporation to increase the maximum permitted number of members of the Board of Directors from nine members to eleven members.

The amendment, attached hereto as Appendix A, amends Section A of Article V of the Articles of Incorporation in its entirety to read as follows:

> A. The Corporation shall have a Board of Directors consisting of not less than three (3) nor more than eleven (11) members unless otherwise determined from time to time by resolution adopted by the affirmative vote of a majority of the shareholders. A director need not be a shareholder. At the annual meeting of shareholders, the shareholders shall elect directors to serve a one-year term and until their successors are duly elected and qualified.

Upon shareholder approval, the Company will file Articles of Amendment with the Virginia State Corporation Commission to reflect this amendment.

The Board believes that an increase in the maximum permitted number of members of the Board appropriately provides two additional board seats in the event holders of the Company's Series A preferred stock and/or Series B Preferred Stock become entitled to elect two directors.

Commencing with dividends due on the Company's preferred stock on December 31, 2013, the Company suspended payment of dividends on the Series A preferred stock, Series B preferred stock and Series C convertible preferred stock to preserve capital and improve liquidity.

Holders of the Series A preferred stock generally have no voting rights. However, if dividends on the Series A preferred stock are in arrears for six consecutive months or nine months (whether or not consecutive) in any twelve-month period, holders of the Series A Preferred Stock, voting together as a single class with all series of preferred stock for which like voting rights are exercisable, will be entitled to elect two directors.

Holders of the Series B preferred stock generally have no voting rights. However, if the dividends on the Series B Preferred stock are in arrears for six or more quarterly periods (whether or not consecutive), holders of the Series B Preferred Stock, voting together as a single class with all series of preferred stock for which like voting rights are exercisable, will be entitled to elect two directors.

If the right to elect two directors arises for the holders of either or both of the Series A preferred stock and the Series B preferred stock, the terms of such directors will end up to twelve months after all dividend arrearages have been paid.

The Board intends to utilize the additional two seats on the Board only if and at the times the holders of the Series A preferred stock and/or Series B preferred stock are entitled to elect two directors.

The amendment to the Articles of Incorporation must be approved by a majority of all votes entitled to be cast by holders of record of shares of common stock and Series C convertible preferred stock, voting as a single class. Abstentions and broker shares that are not voted on this proposal have the same effect as a vote against the proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE AMENDMENT TO THE AMENDED AND RESTATED ARTICLES OF INCORPORATION.

ITEM 3: PROPOSAL TO APPROVE REINCORPORATION IN MARYLAND

The Board of Directors has unanimously approved the proposal to reincorporate from Virginia to Maryland and, for the reasons discussed below, believes that changing our state of incorporation to Maryland is in the Company's best interests and the best interests of our shareholders. We will hereinafter refer to our proposed reincorporation as the "Reincorporation". The effect of the Reincorporation will be to change the law applicable to our corporate affairs from Virginia law to Maryland law. Following the Reincorporation:

- The Company's corporate office will continue to be located in Nebraska — we will not establish any new offices or operations in Maryland as a result of the Reincorporation;

- The Company's business and management will continue to be the same as immediately before the Reincorporation; and

- The Company's fiscal year, assets, liabilities and dividend policies will be the same as immediately before the Reincorporation.

The Board believes that because of Maryland's more comprehensive laws governing REITs and the number of REITs domiciled in that state, Maryland courts have developed a greater expertise than Virginia courts in dealing with REITs and REIT issues and thus have developed a greater body of relevant case law. The Board believes that the comprehensive Maryland statutes, Maryland's policies with respect to REITs and the established body of relevant case law are more conducive to the operations of a REIT than the laws and policies of Virginia and they provide the directors and management of a REIT with greater certainty and predictability in managing its affairs. That this belief is commonly held is evidenced by, among other things, the fact that approximately 76% of publicly owned REITs are formed under Maryland law.

The number of REITs organized under Maryland law may be attributable to the fact that for many years Maryland has encouraged REITs to establish their legal domicile in Maryland. In furtherance of that policy, Maryland has adopted comprehensive, modern and flexible laws that are periodically updated and revised to meet changing business needs (including a separate statute governing REITs that are organized as trusts). As compared to the Virginia Stock Corporation Act ("VSCA") and other state corporation's statutes, the Maryland General Corporation Law ("MGCL") and other provisions of Maryland law are considered to be favorable to REITs for numerous reasons, including more favorable provisions under the MGCL permitting charter restrictions on the transferability of stock, which are necessary to satisfy REIT tax requirements.

The Board of Directors believes that being incorporated in Maryland and being governed by Maryland law, like the majority of publicly owned REITs, would be in the best interest of the Company and its shareholders.

What are the Benefits of the Reincorporation?

The Board believes that we will benefit in several ways by changing our state of incorporation from Virginia to Maryland:

- upon consummation of the Reincorporation, the Company will be governed by the MGCL, which contains provisions conducive to the operations of a REIT;

- the fact that the large majority of public reporting REITs are currently organized under the laws of Maryland has resulted in the development of a more comprehensive and clearer body of law and practice relating to Maryland REITs than is available to a REIT that is organized as a Virginia corporation; and

- being governed by Maryland law will bring our corporate governance more in line with that of other REITs.

What are the Disadvantages of the Reincorporation?

While the Board believes that the Reincorporation is in the best interests of the Company and its shareholders, Virginia and Maryland law differ in some respects. The rights of shareholders and the powers of our Board and our officers under Virginia and Maryland law are discussed in more detail below.

How will the Reincorporation be Accomplished?

The Reincorporation will be accomplished by means of the merger of the Company with and into Supertel Hospitality, Inc. ("SPPR MD"), a Maryland corporation and a wholly-owned subsidiary of the Company pursuant to a Plan and Agreement of Merger (the "Agreement"), a copy of which is attached to this proxy statement/prospectus as Appendix B. The Reincorporation and the Agreement have been unanimously approved by our Board of Directors. Following approval by our shareholders, the Reincorporation will become effective when articles of merger are filed with and accepted for record by the State Department of Assessments and Taxation of the State of Maryland and when the certificate of merger is accepted for record by the State Corporation Commission of the Commonwealth of Virginia. We anticipate that these filings will be made as soon as practicable after the annual meeting and after satisfaction of any remaining conditions precedent to the Reincorporation. At the effective time of the Reincorporation:

- SPPR MD will succeed to all of the assets and liabilities of the Company and continue to possess all of our rights and powers and will operate our business under the name "Supertel Hospitality, Inc.";

- the Company will cease to exist as a Virginia corporation;

- we will be governed by the Articles of Incorporation of SPPR MD (the "Surviving Charter") and the bylaws of SPPR MD (the "Surviving Bylaws"), in substantially the form attached to this proxy statement as Appendices C and D, respectively;

- all of the directors of the Company will become directors of SPPR MD;

- the officers of the Company will become the officers of SPPR MD;

- all issued and outstanding shares of our common stock will be converted into an equal number of shares of common stock of SPPR MD;

- all issued and outstanding shares of Series A preferred stock of the Company will be converted into an equal number of shares of Series A preferred stock of SPPR MD;

- all issued and outstanding shares of Series B preferred stock of the Company will be converted into an equal number of shares of Series B preferred stock of SPPR MD; and

- all issued and outstanding shares of Series C convertible preferred stock of the Company will be converted into an equal number of shares of Series C convertible preferred stock of SPPR MD.

In addition, if the Reincorporation is approved and the merger of the Company with and into SPPR MD is completed, we will take necessary action to provide that all rights of participants in the Company's 2006 Stock Plan prior to the merger will be substantially identical to their rights following the merger. Accordingly, the participants' new rights will be on substantially identical terms and conditions contained in the Company's 2006 Stock Plan.

In consummating the Reincorporation, we are relying on the "no sale" exception set forth in Rule 145(a)(2) promulgated under the Securities Act of 1933, as amended, and accompanying exemptions and/or exceptions under applicable state laws. We have not sought a "no-action" letter from the Securities and Exchange Commission ("SEC") agreeing that the Reincorporation fits within the scope of Rule 145(a)(2)'s "no sale" exception. Thus,

although we believe that we come under this “no sale” exception, we cannot represent that the SEC would concur in this assessment.

A vote to approve the Reincorporation will also be deemed a vote to approve, among other things: (i) the rights, preferences, privileges and restrictions of the capital stock of SPPR MD that will be held our shareholders after consummation of the Reincorporation, as set forth in MGCL and as contained in the Surviving Charter and Surviving Bylaws of SPPR MD, attached hereto as Appendices C and D hereto, as such Surviving Charter and Surviving Bylaws may be deemed modified depending on whether (and which of) the Sub-Items contemplated in Item 4 below are approved; and (ii) the corresponding changes required to the Company’s 2006 Stock Plan. See “How do the Rights of Our Shareholders and our Corporate Governance Compare Before and After the Reincorporation” below for a comparison of corporate governance provisions and shareholder rights under Virginia and Maryland law and under our current and proposed charters and bylaws.

Will the Reincorporation Affect My Investment in Company Shares?

No, although after the Reincorporation your investment will be in shares of a Maryland corporation instead of a Virginia corporation. Except for differences in shareholders’ rights that are attributable to being governed by the MGCL instead of the VSCA (see “How do the Rights of Our Shareholders and our Corporate Governance Compare Before and After the Reincorporation” below), it is our intention that the capital stock of SPPRMD mirror in all material respects the voting, dividend rights, liquidation and other rights attributable to the various classes and series of our stock prior to the effective time of the Reincorporation, subject to any difference in such rights due to differences between the VSCA and the MGCL. Following the Reincorporation, all share certificates representing shares of our capital stock immediately prior to then-effective time of the merger effecting the Reincorporation will continue to represent a like number and kind of shares of capital stock in SPPR MD without any action on the part of the holder thereof. It will not be necessary for shareholders to exchange their existing stock certificates for certificates representing shares of SPPR MD. However, if you so choose, you will have the ability to exchange your old Company share certificates for new share certificates of SPPR MD by delivering your old stock certificates to American Stock Transfer and Trust Company, LLC, our exchange agent, together with the required paperwork.

Will the Reorganization Change My Voting Rights?

Generally, the voting rights of holders of our capital stock will not change after the Reincorporation, although the voting rights of holders of our common stock and preferred stock will be reduced, including to the extent that Virginia law provides for shareholder votes in circumstances where such votes are not required under the MGCL. For instance, the VSCA provides for shareholder voting on amendments to articles of incorporation to change a corporation’s name or to implement a reverse stock split. Maryland law has specific statutes permitting a board of directors, without shareholder action, to amend the corporation’s articles of incorporation to change a corporation’s name and to implement a reverse stock split of up to ten shares for one share in a 12-month period. Additionally, if Sub-Item 4A below is approved, the Surviving Charter will not provide for a shareholder vote to amend the Surviving Charter provisions under Article V with respect to the size of the Board, as is the case under Section 5 of the Company’s Amended and Restated Articles of Incorporation.

What are the Federal Income Tax Consequences of the Reincorporation?

None. We believe that the Reincorporation will be a tax-free reorganization under the Internal Revenue Code. Assuming the Reincorporation qualifies as a reorganization, no gain or loss will be recognized to the holders of the Company’s stock as a result of the Reincorporation, and no gain or loss will be recognized by the Company or SPPR MD. Each former holder of stock of the Company will have the same basis in the stock of SPPR MD received by such holder pursuant to the Reincorporation as such holder has in the stock of the Company held by such holder prior to the Reincorporation. Each shareholder’s holding period with respect to the Company stock will include the period during which such holder held the corresponding the Company stock, provided the latter was held by such holder as a capital asset at the time of the Reincorporation. We have not obtained a ruling from the IRS or an opinion of legal counsel or tax advisor with respect to the tax consequences of the Reincorporation, and the IRS could reach a different conclusion as to the federal income tax consequences of the Reincorporation. We urge our shareholders to consult their own tax advisors as to any federal, state, local and foreign tax consequences of the Reincorporation.

Will the Company's Business Change after the Reincorporation?

No, the Reincorporation will not result in any change in the Company's business, management team, fiscal year, assets, liabilities, or dividend policies.

Are There Any Conditions to Completion of the Reincorporation?

The Reincorporation is subject to a number of customary closing conditions, including receipt of all necessary governmental and other consents and approvals as well as the approval of the holders of at least a majority of the outstanding shares of our common stock and Series C convertible preferred stock, voting together as a single class. Notwithstanding shareholder approval of the Reincorporation, we may terminate the Agreement and abandon the Reincorporation if circumstances arise or facts are revealed that make it inadvisable, in the judgment of the Board of Directors, to proceed with the Reincorporation.

Do I Have Appraisal Rights in the Reincorporation?

Holders of common stock, Series A preferred stock and Series B preferred stock will not have any right to elect to have the fair value of their shares judicially appraised and paid to them in cash with, or as a result of, the Reincorporation. The holder of the Series C convertible preferred stock has waived any rights to appraisal it may have in the Reincorporation.

Is separate class vote required to approve the Reincorporation?

No, the Company's articles of incorporation (the "Company Charter") provides that the holders of the Series C convertible preferred stock vote as a single class with the holders of the common stock on all matters submitted to such holders for vote or consent. As noted above, we are required to obtain the approval of the holders of at least a majority of the outstanding shares of our common stock and Series C convertible preferred stock, voting together as a single class.

Abstentions and broker non-votes will have the same effect as a vote against this proposal. Brokers holding shares of our stock will not have discretionary authority to vote those shares in the absence of instructions from the beneficial owners of such shares, so the failure to provide voting instructions to your broker will also have the same effect as a vote against the Reincorporation.

How do the Rights of Our Shareholders and Our Corporate Governance Compare Before and After the Reincorporation?

Upon completion of the merger effecting the Reincorporation, shareholders in the Company will become shareholders in SPPR MD. The rights of the shareholders of SPPR MD will be governed by the applicable laws of the State of Maryland, including the MGCL, and by the Surviving Charter and Surviving Bylaws. Since the Company is a Virginia corporation, the rights of the shareholders of the Company are governed by the applicable laws of the Commonwealth of Virginia, including the VSCA, and by the Company Charter and bylaws of the Company (the "Company Bylaws").

The following is a summary comparison of:

- the current rights of the Company shareholders under the VSCA, the Company Charter, and the Company Bylaws; and
- the future rights of SPPR MD shareholders under the MGCL, the Surviving Charter and Surviving Bylaws.

The statements in this section are qualified in their entirety by reference to, and are subject to, the detailed provisions of the MGCL, the VSCA, the Company Charter, the Company Bylaws, the Surviving Charter and the

Surviving Bylaws. The Company will send copies of the Company Charter, Surviving Charter, Company Bylaws and Surviving Bylaws to shareholders upon request without charge.

General Corporate Governance Matters

Governing Statutes

Virginia: The rights of the Company shareholders are governed by the VSCA and the Company Charter and Company Bylaws.

Maryland: The rights of SPPR MD shareholders will be governed by the MGCL and the Surviving Charter and Surviving Bylaws.

Authorized Capital Stock

Virginia: The authorized capital stock of the Company currently consists of (i) 200,000,000 shares of common stock, $0.01 par value and 40,000,000 shares, $0.01 par value, of preferred stock.

Maryland: The authorized capital stock of SPPR MD will consist of the same amount of authorized capital stock of the Company.

Blank Check Preferred

Virginia: The Board of the Company is authorized to issue shares of preferred stock from time to time in such series and with such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or other provisions as may be fixed by the Board of Directors.

Maryland: The Board of Directors of SPPR MD may also issue shares of preferred stock from time to time in such series and with such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or other provisions as may be fixed by the Board of Directors of SPPR MD.

Voting Rights

Virginia: Under the VSCA, holders of common stock and preferred stock in certain circumstances are entitled to separate class votes with respect to certain extraordinary transactions (e.g., certain amendments to the Company Charter), mergers, consolidations or other extraordinary business combinations except as otherwise provided in the Company Charter.

Maryland: Under Maryland law, unless the charter provides for a greater or lesser number of votes per share or limits or denies voting rights, each outstanding share of stock, regardless of class, is entitled to one vote on each matter submitted to a vote at a meeting of shareholders. Under the Surviving Charter, shares of the Series C convertible preferred stock will continue to vote together as a single class with the common stock on all matters voted upon by the holders of common stock, with a vote per share as described under “Series C Preferred Stock Vote Determination.” The holders of the common stock, Series A preferred stock, Series B preferred stock and Series C convertible preferred stock will generally have the same such rights, preferences, privileges and voting power under and as designated in the Surviving Charter.

Amendment of the Articles of Incorporation

Virginia: The VSCA requires the approval of shareholders of a Virginia corporation for any amendment to its articles of incorporation, except that certain immaterial amendments specified in the VSCA may be made by the Board of Directors. As permitted by the VSCA, the Company Charter provides, that except as expressly otherwise required by the Company Charter, (i) an amendment to or restatement of the Company Charter for which the VSCA requires shareholder approval, (ii) the approval of a plan of merger or share exchange for which the VSCA requires shareholder approval, (iii) the approval of a sale of all, or substantially all of the Company's property, other than in

the usual and regular course of business or (iv) the approval of the dissolution of the Company shall be approved by a majority of the votes entitled to be cast by each voting group that is entitled to vote on the matter, unless in submitting any such matter to the shareholders the Board of Directors shall require a greater vote. The Company Charter provides that no action may be taken to disqualify the Company as a REIT or otherwise revoke the Company's election to be taxed as a REIT without the affirmative vote of two-thirds of the number of shares of common stock entitled to vote on such matter at a special meeting of shareholders.

Except as specifically provided in the Company Charter, the Series A preferred stock and Series B preferred stock do not have voting rights. The Company Charter specifically provides that the affirmative vote of holders of at least a majority of the Series A preferred stock and Series C convertible preferred stock then outstanding, or in the case of the Series B preferred stock, the affirmative vote of two-thirds of Series B preferred stock then outstanding, is required to effect any amendment to the Company Charter that materially adversely affects any of their respective rights, preferences, privileges, or voting powers or creates a class or series of capital stock senior to them (each an "Event"). As provided in the Company Charter, so long as the Series A preferred stock (or any equivalent class or series of stock or shares issued by the surviving corporation, trust or other entity in any merger or consolidation to which the Company became a party) remains outstanding with the terms thereof materially unchanged, the occurrence of any such Event is not deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series A preferred stock. Similar provisions in the Company Charter also apply to the Series B preferred stock and the Series C convertible preferred stock. The holders of the Series A preferred stock, and Series B preferred stock and the Series C preferred stock will have preferred stock with the terms thereof materially unchanged under the Surviving Charter, and therefore the holders of the Series A preferred stock and Series B preferred stock do not have voting rights with respect to the Reincorporation proposal.

The Company Charter provides that the Series C convertible preferred stock votes with the common stock as a single class on all matters. Further, so long as RES, the holder of the Series C convertible stock, has the right to designate two or more Company directors (RES currently has the right to designate four Company directors), then a merger such as the Reincorporation requires the approval of RES. RES has advised that its vote of the Series C preferred stock for the Reincorporation is to be deemed its approval of the merger to implement the Reincorporation.

Maryland: The MGCL provides that a Maryland corporation generally cannot amend its charter unless the action is advised by its board of directors and approved by the affirmative vote of shareholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter, unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is specified in the corporation's charter. The Surviving Charter, like the Company Charter, provides that except as expressly otherwise required by the Surviving Charter, (i) an amendment to or restatement of the Surviving Charter for which the MGCL requires shareholder approval, (ii) the approval of a plan of merger or share exchange for which the MGCL requires shareholder approval, (iii) the approval of a sale of all, or substantially all of the SPPR MD's property, other than in the usual and regular course of business or (iv) the approval of the dissolution of the SPPR MD shall be approved by a majority of the votes entitled to be cast by each voting group that is entitled to vote on the matter, unless in submitting any such matter to the shareholders the Board of Directors shall require a greater vote. The Survivng Charter provides that no action may be taken to disqualify the SPPR MD as a REIT or otherwise revoke the SPPR MD's election to be taxed as a REIT without the affirmative vote of two-thirds of the number of shares of common stock entitled to vote on such matter at a special meeting of shareholders.

A Maryland corporation may also provide in its charter that the board of directors, with the approval of a majority of the entire board, and without action by the shareholders, may approve amendments to the charter to increase or decrease the aggregate number of shares of stock that the corporation is authorized to issue or the number of shares of stock of any class or series that the corporation is authorized to issue. The Surviving Charter provides the Board of Directors of SPPR MD with such power.

Amendment of the Bylaws

Virginia : The VSCA provides that a corporation's shareholders may amend or repeal the corporation's bylaw. The VSCA further provides that the board of directors may amend or repeal the corporation's bylaws except to the extent that the articles of incorporation or the VSCA otherwise reserves that power exclusively to the

shareholders. The Company Bylaws provide that (1) the shareholders have the power to adopt, alter or repeal any of the Company Bylaws or to make new bylaws, and (2) the Board of Directors have the power to adopt, alter or repeal any of the Company Bylaws, except the Board of Directors may not alter or repeal the bylaws made by the shareholders.

Maryland : Under the MGCL, an amendment to the bylaws of a corporation requires the approval of the shareholders, unless the charter or bylaws confers the power to amend to the board of directors. The Surviving Bylaws provide, like the Company Bylaws, that (1) the shareholders have the power to adopt, alter or repeal any of the Surviving Bylaws or to make new bylaws, and (2) the board of directors have the power to adopt, alter or repeal any of the Surviving Bylaws, except the board of directors may not alter or repeal the bylaws made by the shareholders.

Matters Relating To Directors And Officers

Number of Directors

Virginia: The Company Charter currently provides that the number of directors on the Board of Directors must be at least three (3) but no more than nine (9), which number may be changed by the affirmative vote of a majority of the shareholders. The exact number of directors within this specified range may be set by a majority of directors. The Company does not have a classified board (i.e., the Board is not divided into classes). The Company Bylaws provide that a majority of the directors must be "independent directors" (as defined in the Company Bylaws). The Board has recommended that the holders of the common stock and the Series C Preferred Stock approve an amendment to the Company Charter to increase the maximum permitted number of directors from nine (9) to eleven (11). See "Item 2. Approval of Amendment to Amended and Restated Articles of Incorporation."

Maryland : The MGCL provides that each Maryland corporation must have at least one director, with the number specified in or fixed in accordance with the charter or bylaws of the corporation. If Item 2 is approved by the Shareholders, the Surviving Charter will provide for no fewer than three (3) directors and no more than eleven (11) directors. SPPR MD does not have a classified board. If Item 2 is not approved by the shareholders, the Surviving Charter, like the current Company Charter, will provides that the number of directors on the Board of Directors must be at least three (3) but no more than nine (9). The Surviving Bylaws provide that a majority of the Directors must be "independent directors" (as defined in the Surviving Bylaws, the same definition as provided in the Company Bylaws).

Election of Directors; Term

Virginia: Directors are elected at each annual meeting of the shareholders and hold office until (i) the next annual meeting and until their successors are elected and qualified, or (ii) until their earlier resignation, removal or death.

Holders of our Series A preferred stock and our Series B preferred stock generally have no voting rights. However, under the Company Charter:

- with respect to the Series A preferred stock, if the dividends on the Series A preferred stock are in arrears for six consecutive months or nine months (whether or not consecutive) in any twelve month period, or

- with respect to the Series B preferred stock, if the dividends on the Series B preferred stock are in arrears for six or more quarterly periods (whether or not consecutive),

then the holders of the Series A preferred stock, or the holders of the Series B preferred stock, as applicable, voting together as a single class with all series of preferred stock for which like voting rights are exercisable, will be entitled to elect two directors, while such accrued dividends remain unpaid.

Maryland: Under the Surviving Charter, directors are elected at each annual meeting of the shareholders and hold office until (i) the next annual meeting and until their successors are elected and qualified, or (ii) until their earlier resignation, removal or death. Holders of the Series A preferred stock and Series B preferred stock will have the same voting rights as set forth in the Company Charter and will have the right to elect two directors to our Board if SPPR MD fails to pay such holders' dividends as currently provided in the Company Charter.

Removal of Directors

Virginia : Under the Company Bylaws, a Director may be removed, with or without cause, by the affirmative vote of the holders of not less than a majority of the outstanding shares entitled to vote on the election of Directors and the holders may elect a successor to fill the resulting vacancy for the balance of the term of the removed Director.

Maryland: Maryland law provides that, unless otherwise provided in the charter, the shareholders of a corporation may remove any director, with or without cause, by the affirmative vote of a majority of all the votes entitled to be cast generally for the election of directors.

Vacancies

Virginia: The Company Bylaws provide that, except for vacancies resulting from the removal of a director by Company shareholders, the affirmative vote of the majority of the remaining Directors, though less than a quorum of the Board of Directors, may fill vacancies occurring on the board. The term of any director elected to fill a vacancy will expire at the next annual meeting of shareholders and when his successor is elected. However, the Company Bylaws further provide that a majority of independent directors must nominate replacements for vacancies among the independent directors and that a majority of independent directors must elect those replacements.

Under the Company Charter, vacancies affecting the Directors elected by the holders Series A preferred stock and Series B preferred stock may be filled (if the limited director election rights of the Series A preferred stock or Series B preferred stock are in force) by the remaining director elected by the holders of the preferred shares, or, if none, by the holders of a majority of the outstanding shares of each such preferred stock series entitled to vote.

Maryland: Maryland law provides that unless the charter or bylaws provide otherwise, any vacancy on the SPPR MD Board may be filled by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, except that a majority of the entire board of directors is required to fill a vacancy resulting from an increase in the number of directors. The provisions in the Surviving Charter and Surviving Bylaws regarding the filling of vacancies on the SPPR MD Board follow the Company Charter and Company Bylaws as described above.

Limitations on Liability and Indemnification of Directors and Officers

Virginia: The Company Charter requires the Company to indemnify any director or officer who is or was a party to a proceeding, including a proceeding by is or in the Company's right, by reason of the fact that he or she is or was such a director or officer or is or was serving at our request as a director, officer, employee or agent of another entity, provided that the Board of Directors determines that the conduct in question was in the Company's best interest and such person was acting on the Company's behalf. The director or officer is entitled to be indemnified against all liabilities and expenses incurred by the director or officer in the proceeding, except such liabilities and expenses as are incurred if such person engaged in gross negligence, willful misconduct or a knowing violation of the criminal law. Unless a determination has been made that indemnification is not permissible, a director or officer also is entitled to have the Company make advances and reimbursement for expenses prior to final disposition of the proceeding upon receipt of a written undertaking from the director or officer to repay the amounts advanced or reimbursed if it is ultimately determined that he or she is not entitled to indemnification. The Board of Directors also has the authority to extend to any person who is our employee or agent, or who is or was serving at our request as a director, officer, employee or agent of another entity, the same indemnification rights held by directors and officers, subject to the same conditions and obligations described above.

The VSCA permits a court, upon application of a director or officer, to review the Board of Director's determination as to a director's or officer's request for advances, reimbursement or indemnification. If it determines that the director or officer is entitled to such advances, reimbursement or indemnification, the court may order the Company to make advances and/or reimbursement for expenses or to provide indemnification.

We have been informed that in the opinion of the SEC indemnification for liabilities under the Securities Act of 1933, as amended, is against public policy and is unenforceable.

Maryland: Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its shareholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty which was established by a final judgment and was being material to the cause of action. The Surviving Charter contains a provision eliminating the liability of the Maryland corporation's directors and officers to the maximum extent permitted by Maryland law.

The MGCL requires SPPR MD (unless the charter provides otherwise, which the Surviving Charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made a party by reason of his or her service in such capacity. The MGCL permits SPPR MD to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or threatened to be made a party by reason of their service in those or other capacities unless it is established:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe the act or omission was unlawful.

Under the MGCL, SPPR MD may not indemnify a director or officer in a suit by it or in its right in which the director or officer was adjudged liable to SPPR MD or in a suit in which the director or officer was adjudged liable on the basis personal benefit was improperly received. A court may order indemnification if it determines the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct, was adjudged liable to SPPR MD or was adjudged liable on the basis personal benefit was improperly received. However, indemnification for an adverse judgment in a suit by SPPR MD or in its right, or for a judgment of liability on the basis personal benefit was improperly received, is limited to expenses.

In addition, the MGCL permits SPPR MD to advance reasonable expenses to a director or officer upon its receipt of:

- a written affirmation by the director or officer of his or her good faith belief he or she has met the standard of conduct necessary for indemnification by SPPR MD; and
- a written undertaking by the director or officer or on the director's or officer's behalf to repay the amount paid or reimbursed by SPPR MD if it is ultimately determined the director or officer did not meet the standard of conduct.

The Surviving Charter authorizes SPPR MD to obligate SPPR MD, to the fullest extent permitted by Maryland law in effect from time to time, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to:

- any present or former director or officer who is made or threatened to be made a party to the proceeding by reason of his or her service in such capacity; or
- any individual who, while a director or officer SPPR MD and at its request, serves or has served as a director, officer, partner, manager or trustee of another corporation, REIT, partnership, limited liability company, joint venture, trust, employee benefit plan or any other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in such capacity.

The Surviving Charter also permits SPPR MD to indemnify and advance expenses to any person who served a predecessor of SPPR MD in any of the capacities described above.

Matters Relating To Shareholders

Advance Notice Requirement for Shareholder Proposals and Director Nominations

Virginia: The Company Bylaws provide that, with respect to an annual meeting of shareholders, nominations of individuals for election to the Board of Directors and the proposal of business to be considered by shareholders may be made only (1) pursuant to the Company's notice of the meeting, (2) by the Board of Directors or (3) by a shareholder who has complied with the advance notice procedures of the Company Bylaws. The Company Bylaws provide that in order for director nominations or shareholder proposals to be properly brought before the meeting, the shareholder must have delivered timely notice to the Company Secretary. To be timely, notice must generally have been delivered no later than 90 days in advance of the annual meeting.

Maryland: Maryland law provides that the corporation's charter or bylaws may require any shareholder proposing a nominee for election as a director or any other matter for consideration at a meeting of the shareholders to provide advance notice of the nomination or proposal to the corporation of not more than 90 days before the date of the meeting, or, in the case of an annual meeting, 90 days before the first anniversary of the preceding year's annual meeting or the mailing date of the notice of the preceding year's annual meeting. The charter or bylaws may specify another time.

The Surviving Bylaws have the same provisions as the Company Bylaws, and provide that in order for director nominations or shareholder proposals to be properly brought before the meeting, the shareholder must have delivered timely notice to our Secretary. Under the Surviving Bylaws, as under the Company Bylaws, to be timely, notice generally must have been delivered not later than 90 days in advance of the annual meeting.

Actions by Written Consent of Shareholders

Under both the Company Bylaws and the Surviving Bylaws, any action required or permitted to be taken by the shareholders can be effected by unanimous written consent.

Shareholder Power to Call Special Meeting

Virginia: The Company Bylaws provide that a special meeting of the shareholders may be called by a majority of the Board of Directors, or by a majority of the independent directors, or by the CEO, or by one or more shareholders holding not less than ten percent (10%) of the shares entitled to vote at such meeting.

Maryland: Under Maryland law, a special meeting may be called by (i) the president; (ii) the board of directors; or (iii) any person designated in the charter or bylaws. Maryland law provides that special meetings of the shareholders may also be called by the secretary of the corporation upon the written request of shareholders entitled to cast at least 25% of all the votes entitled to be cast at the meeting. However, unless requested by shareholders entitled to cast a majority of all the votes entitled to be cast at the meeting, the secretary is not required to call a special meeting if the matter to be considered at the meeting is substantially the same as a matter considered at a special meeting during the preceding 12 months. The charter or bylaws may increase or decrease the percentage of votes shareholders must possess to request a special meeting, provided that the percentage may not be greater than a majority of the votes entitled to be cast at the meeting.

Under the Surviving Bylaws, as under the Company Bylaws, shareholders may call a special meeting upon the written request of shareholders entitled to cast at least ten percent (10%) of all the votes entitled to be cast at the meeting. Additionally, the Surviving Bylaws, as under the Company Bylaws,allow for the CEO or the SPPR MD Board of Directors to call special meetings of shareholders.

Preemptive Rights

Virginia: None of the VSCA, the Company Charter nor the Company Bylaws provide our shareholders with a preemptive right to purchase or subscribe for any additional shares of stock or any other security of ours which we may issue or sell.

Maryland: The Surviving Charter provides that that the shareholders have no preemptive right to purchase or subscribe for any additional shares of stock or any other security of SPPR MD which it may issue or sell.

Appraisal Rights

Virginia: Under the VSCA, a shareholder of a Virginia corporation generally has the right to obtain payment of fair value of that shareholder's shares in the event of a merger, share exchange or sale of assets requiring shareholder approval or any interested transaction, subject to certain requirements. Appraisal rights are also available to shareholders if the articles of incorporation are amended to reduce the number of shares of a class or series of shares to a fraction of a share if the corporation has the obligation or right to repurchase the fractional share created. Additionally, appraisal rights are available to shareholders with respect to any other amendment to the articles of incorporation, merger, share exchange or sale of assets if provided in the articles of incorporation, the by-laws or by resolution of the board of directors.

Virginia law does not confer appraisal rights on a shareholder of any shares: (a) that constitute a covered security under Section 18(b)(1)(A) or (B) of the federal Securities Act of 1933, as amended, (b) that are traded in an organized market with at least 2,000 shareholders and a market value of at least $20 million, exclusive of the value of such shares held by the corporation's subsidiaries, senior executives, directors and beneficial owners owning at least 10% of such shares, or (c) that are issued by an open-end management investment company registered with the SEC under the Investment Company Act of 1940 and that may be redeemed at the holder's option at net asset value. However, appraisal rights are available if a shareholder is required to accept something other than cash or shares of any corporation or other proprietary interest of any other entity that satisfies (a), (b) or (c) above.

The holders of the common shares, Series A preferred stock and Series B preferred stock are not entitled to appraisal rights in connection with the Reincorporation. The holder of the Series C preferred stock has waived any appraisal rights that it may have in connection with the Reincorporation.

Maryland: Under Maryland law, shareholders have the right to dissent and to demand and to receive payment of the fair value of their stock in the event of (i) a merger or consolidation; (ii) a share exchange; (iii) a transfer of assets in a manner requiring shareholder approval; (iv) an amendment to the charter altering contract rights of outstanding stock, as expressly set forth in the charter, and substantially adversely affecting the shareholder's rights (unless the right to do so is reserved in the charter); or (v) certain business combinations with interested shareholders which are subject to or exempted from the Maryland business combination statute (as discussed below) and in connection with the approval of voting rights of certain shareholders under the Maryland control share acquisition statute. Except with respect to certain business combinations and in connection with appraisal and dissenter's rights existing as a result of the Maryland control share statute, the right to demand and receive payment of fair value does not apply (a) to stock listed on a national securities exchange; (b) to stock of the successor in a merger (unless the merger alters the contract rights of the stock or converts the stock in whole or in part into something other than stock of the successor, cash or other interests); (c) to stock that is not entitled (other than because the transaction is a merger between the corporation and a 90% or more owned subsidiary) to be voted on the transaction or the shareholder did not own the shares of stock on the record date for determining shareholders entitled to vote on the transaction; (d) if the charter provides that the holders of the stock are not entitled to exercise the rights of an objecting shareholders; or (e) stock of an open-end investment company registered with the SEC under the Investment Company Act of 1940 and the stock is valued in the transaction at its net asset value. Except in the case of appraisal and dissenter's rights existing as a result of the Maryland control share acquisition statute, these

rights are available only when the shareholder files with the corporation a timely, written objection to the transaction, and does not vote in favor of the transaction. In addition, the shareholder must make a demand on the successor corporation for payment of the stock within 20 days of the acceptance of articles by the Maryland State Department of Assessments and Taxation.

Dividends and Redemptions

Virginia: Under the VSCA, the Board of Directors may authorize and pay dividends so long as the Company meets two tests: (a) the Company would be able to pay its debts as they become due in the normal course of business; or (b) the Company's total assets would not be less than the sum of its total liabilities plus the amount needed, if the Company were to be dissolved at the time of the dividend, to satisfy any preferential rights superior to those receiving the dividend.

Maryland: A Maryland corporation generally may make distributions to its shareholders unless, after giving effect to the distribution: (a) the corporation would not be able to pay its debts as they come due in the ordinary course of business; or (b) the corporation's total assets would be less than its total liabilities, plus, unless the charter permits otherwise, the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights of shareholders whose preferential rights on dissolution are superior to those receiving the distribution.

Anti-Takeover Measures

The VSCA and MGCL each contain provisions that may have the effect of impeding the acquisition of control of a corporations by means of a tender offer, a proxy contest, open market purchases or otherwise in a transaction not approved by the corporation's board of directors. Both the Company Charter and Surviving Charter contain the same limitations on the ownership of more than 9.9% of the outstanding shares of common stock and, with respect to any class or series of preferred stock, 9.9% of the number of outstanding shares of such class or series of preferred stock. These restrictions on ownership and transfer could delay, defer or prevent a business combination regardless of the law of the state of formation.

Affiliated Transactions Statute

Virginia: The Company is subject to the "affiliated transactions" provisions of the VSCA which restrict certain transactions between the Company and any person (an "Interested Shareholder") who beneficially owns more than 20% of any class of the Company's voting securities ("Affiliated Transactions"). These restrictions, which are described below, do not apply to an Affiliated Transaction with an Interested Shareholder who has been such continuously since the date the Company first had 300 shareholders of record or whose acquisition of shares making such person an Interested Shareholder was previously approved by a majority of the Company's Disinterested Directors. "Disinterested Director" means, with respect to a particular Interested Shareholder, a member of our Board of Directors who was (i) a member on the date on which an Interested Shareholder became an Interested Shareholder or (ii) recommended for election by, or was elected to fill a vacancy and received the affirmative vote of, a majority of the Disinterested Directors then on the Board of Directors.

Affiliated Transactions include mergers, share exchanges, material dispositions of corporate assets not in the ordinary course of business, any dissolution of the Company proposed by or on behalf of an Interested Shareholder, or any reclassification, including reverse stock splits, recapitalization or merger of the Company with its subsidiaries, which increases the percentage of voting shares owned beneficially by an Interested Shareholder by more than five percent.

The "affiliated transactions" statute prohibits the Company from engaging in an Affiliated Transaction with an Interested Shareholder for a period of three years after the Interested Shareholder became such unless the transaction is approved by the affirmative vote of a majority of the Disinterested Directors and by the affirmative vote of the holders of two-thirds of the voting shares other than those shares beneficially owned by the Interested Shareholder. Following the three-year period, in addition to any other vote required by law or by the Company Charter, an Affiliated Transaction must be approved either by a majority of the Disinterested Directors or by the shareholder vote described in the preceding sentence unless the transaction satisfies the fair-price provisions of the

statute. These fair-price provisions require, in general, that the consideration to be received by shareholders in the Affiliated Transaction (i) be in cash or in the form of consideration used by the Interested Shareholder to acquire the largest number of its shares and (ii) not be less, on a per share basis, than an amount determined in the manner specified in the statute by reference to the highest price paid by the Interested Shareholder for shares it acquired and the fair market value of the shares on specified dates.

Maryland: The Maryland Business Combination Act prohibits a business combination between a Maryland corporation and any interested shareholder or any affiliate of an interested shareholder for five years following the most recent date upon which the shareholder became an interested shareholder. A business combination includes a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. Generally, an interested shareholder is anyone who owns 10% or more of the voting power of the corporation's shares or an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation. A person is not an interested shareholder under the statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested shareholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board. After the five-year period has elapsed, a corporation subject to the statute may not consummate a business combination with an interested shareholder unless (i) the transaction has been recommended by the board of directors and (ii) the transaction has been approved by (a) 80% of the outstanding votes entitled to be cast by holders of outstanding shares of voting stock of the corporation and (b) two-thirds of the votes entitled to be cast by holders of voting stock other than shares owned by the interested shareholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested shareholder. This approval requirement need not be met if certain fair price and terms criteria have been satisfied.

Duties of Directors

Virginia: The VSCA requires a director of a Virginia corporation to perform his or her duties as a director, including as a member of a committee, in accordance with such director's good faith business judgment of the best interests of the corporation. A director is not liable for any action taken as a director, or any failure to take any action, if the director performed the duties of his or her office in compliance with this standard.

Maryland: The MGCL requires a director of a Maryland corporation to perform his or her duties as a director (including as a member of a committee): (i) in good faith; (ii) in a manner (s)he reasonably believes to be in the best interests of the corporation; and (iii) with the care that an ordinarily prudent person in a like position would use under similar circumstances. Maryland law provides that a person who performs his or her duties in accordance with the above standard has no liability by reason of being or having been a director of a corporation. An act of a director is presumed to satisfy the standard.

In addition, the MGCL provides protection for Maryland corporations against unsolicited takeovers by protecting boards of directors with regard to actions taken in a takeover context. The MGCL provides that the duties of directors will not require them to:

- accept, recommend or respond to any proposal by a person seeking to acquire control,
- make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act, or
- act or fail to act solely because of (i) the effect the act or failure to act may have on an acquisition or potential acquisition of control or (ii) the amount or type of consideration that may be offered or paid to shareholders in an acquisition.

The MGCL also provides that an act of a director relating to or affecting an acquisition or a potential acquisition of control is not subject under the MGCL to a higher duty or greater scrutiny than is applied to any other act of a director. This provision creates a Maryland rule that is less exacting than case law in other jurisdictions

which imposes an enhanced level of scrutiny when a board implements anti-takeover measures in a change of control context and shifts the burden of proof to the board to show that the defensive mechanism adopted by a board is reasonable in relation to the threat posed.

Control Share Acquisitions

Virginia: The Company is subject to the "control share acquisitions" provisions of the VSCA, which provide that shares of the Company's voting securities which are acquired in a "Control Share Acquisition" have no voting rights unless such rights are granted by a shareholders' resolution approved by the holders of a majority of the votes entitled to be cast on the election of directors by persons other than the acquiring person or any officer or employee-director. A "Control Share Acquisition" is an acquisition of voting shares which, when added to all other voting shares beneficially owned by the acquiring person, would cause such person's voting strength with respect to the election of directors to meet or exceed any of the following thresholds: (i) one-fifth, (ii) one-third or (iii) a majority. A Control Share Acquisition does not include acquisition of shares of a public corporation directly from the public corporation.

An acquiring person is entitled, before or after a Control Share Acquisition, to file a disclosure statement with us and demand a special meeting of shareholders to be called for the purpose of considering whether to grant voting rights for the shares acquired or proposed to be acquired. The Company may, during specified periods, redeem the shares so acquired if no disclosure statement is filed or if the shareholders have failed to grant voting rights to such shares. In the event full voting rights are granted to an acquiring person who then has majority voting power, those shareholders who did not vote in favor of such grant are entitled to dissent and demand payment of the fair value of their shares from the Company.

A corporation may, at its option, elect not to be governed by the foregoing provisions of the VSCA by amending its articles of incorporation or bylaws to exempt itself from coverage; provided, however, any such election not to be governed by the "affiliated transactions" statute must be approved by the corporation's shareholders and will not become effective until 18 months after the date it is adopted. The Company has not elected to exempt itself from coverage under these statutes.

Maryland: The MGCL provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares of stock as to which the acquiring person, officers of the corporation, and employees of the corporation who are directors of the corporation are entitled to exercise or direct the exercise of the voting power of the shares in the election of directors. "Control shares" are voting shares of stock which, if aggregated with all other shares of stock previously acquired by a person, would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power: (i) one-tenth or more but less than one-third; (ii) one-third or more but less than a majority; or (iii) a majority or more of all voting power. Control shares do not include shares that the acquiring person is entitled to vote as a result of having previously obtained shareholder approval. A "control share acquisition" means the acquisition, directly or indirectly, of control shares, subject to certain exceptions.

A person who has made or proposes to make a "control share acquisition," upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel the board of directors to call a special meeting of shareholders to be held within fifty (50) days of such demand to consider the voting rights of the shares.

If voting rights are not approved at the meeting or if the acquirer does not deliver an acquiring person statement as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares, except those for which voting rights have previously been approved, for fair value determined, without regard to voting rights, as of the date of the last control share acquisition or of any special meeting of shareholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a shareholders' meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other shareholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid in the control share acquisition. The "control share acquisition" statute does not apply to shares acquired in a merger,

consolidation, or share exchange if the corporation is a party to the transaction or to acquisitions approved or exempted by the charter or the bylaws of the corporation.

The charter or bylaws of a Maryland corporation may include a provision opting out of the control share acquisition statute of the MGCL; however, neither the Surviving Charter nor the Surviving Bylaws contain such an opt out provision. Accordingly, the control share acquisition statute of the MGCL will apply to any acquisition by any person of stock of SPPR MD.

Vote Required

Approval of this Item 3 requires that we obtain the approval of the holders of at least a majority of the outstanding shares of our common stock and Series C convertible preferred stock, voting together as a single class. Abstentions and broker shares that are not voted on this proposal have the same effect as a vote against the proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR APPROVAL OF REINCORPORATION IN MARYLAND.

ITEM 4, SUB-ITEMS 4A THROUGH 4C: APPROVAL OF PORTIONS OF THE SURVIVING CHARTER AS A PART OF THE REINCORPORATION

In connection with the Reincorporation, subject to the approval of shareholders, the Surviving Charter and Surviving Bylaws will replace the Company Charter and Company Bylaws as the governing documents, as described below and in Item 3 above. The Surviving Charter will implement certain changes described below as compared to the Company Charter. Pursuant to this this Item 4, shareholders are asked to consider, and vote to approve, certain provisions which are included in the Surviving Charter.

To comply with applicable “unbundling” rules of the SEC relating to proxy statements, we are presenting Sub-Items 4A through 4C to shareholders as separate proposals for approval. Approval of the Sub-Items is not a condition to consummation of the Reincorporation. Accordingly, a vote against any of the Sub-Items will not count as a vote against the Reincorporation. Should we obtain approval of less than all of the Sub-Items, we may elect not to proceed with the Reincorporation.

Background

The Sub-Items set forth below (i) are intended to amend or remove provisions of the Company Charter that the Company believe are unnecessary for the protection of the Company or the shareholders, and (ii) are intended to provide the Board of Directors flexibility to take actions that it believes to be in the best interest of the Company and the best interests of the shareholders. The Board believes that it is appropriate to vest in the Board of Directors powers sufficient to provide it with the flexibility it needs to timely and effectively direct the Company and its management and development.

If the Reincorporation is approved by the shareholders and subsequently consummated, we anticipate that we will continue to review the terms and provisions of the Surviving Charter and the Surviving Bylaws on an ongoing basis to ensure that the Board of Directors has appropriate corporate governance flexibility and to ensure that the Company maintains appropriate shareholder protections. These reviews could result in the Board of Directors making the determination that the addition of certain provisions to, deletion of certain provisions from, or the amendment of certain provisions in, the Surviving Charter or the Surviving Bylaws would be in the Company’s best interest. Depending on the provisions that are being added, amended or deleted, shareholder approval may not be required. In particular if shareholders approve the ability of the Board of Directors to increase or decrease authorized shares without action by the shareholders, the Board will be able to amend the Surviving Charter to increase or decrease the number of authorized shares without shareholder consent. However, any decisions the Board of Directors makes with respect to an amendment of the Surviving Charter or the Surviving Bylaws are subject to express statutory duties under the MGCL, which require that each of the directors, in carrying out his

responsibilities as a director, acts (1) in good faith, (2) with a reasonable belief that his actions are in the Company's best interests, and (3) with the care of an ordinarily prudent person in a like position under similar circumstances.

Attached hereto as Appendices C and D are the Surviving Charter and Surviving Bylaws. These forms assume that all of the amendments described in the Sub-Items below will be approved. Each Sub-Item describes the effect on the Surviving Charter or the Surviving Bylaws, as applicable, if such Sub-Item is not approved.

SUB-ITEM 4A. APPROVE THE PROPOSAL TO NOT REQUIRE SHAREHOLDER APPROVAL IN THE SURVIVING CHARTER TO CHANGE THE SIZE OF THE BOARD OF DIRECTORS

Section A of Article V of the Company Charter includes the requirement that the Board of Directors shall have the number of members specified therein "unless otherwise determined from time to time by resolution adopted by the affirmative vote of a majority of the shareholders."

The Board has asked in Item 2 above for shareholder approval to increase the size of the Board to 11 members by amendment of the Company Charter to provide two additional board seats to be available in the event holders of the Company's Series A preferred stock and/or Series B Preferred Stock become entitled to elect two directors. The Board believes that eliminating the requirement for shareholder approval in the Surviving Charter will in the future permit the Board to act more quickly to adjust the size of the Board without the cost of seeking shareholder approval at an annual or special meeting for shareholders.

Approval of Sub-Item 4A requires approval by a majority of all votes entitled to be cast by holders of record of shares of common stock and Series C convertible preferred stock, voting as a single class. Abstentions and broker shares that are not voted on this proposal have the same effect as a vote against the proposal.

If Sub-Item 4A is not approved by the shareholders, we will revise the Surviving Charter to require shareholder approval to change the size of the Board of Directors as currently provided in the Company Charter.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR APPROVAL TO NOT REQUIRE SHAREHOLDER APPROVAL IN THE SURVIVING CHARTER TO CHANGE THE SIZE OF THE BOARD OF DIRECTORS.

SUB-ITEM 4B. APPROVE THE ADDITIONAL INDEMNIFICATION PROVISION IN THE SURVIVING CHARTER

As more fully described above in Item 3 under "*Limitations on Liability and Indemnification of Directors and Officers*" the Company Charter provides for specific indemnification and reimbursement of expenses for directors and officers of the Company and certain other persons. The Surviving Charter provides for similar indemnification obligations of SPPR MD.

The Company Charter provides for indemnification of certain additional persons as follows:

"The Board of Directors is hereby empowered, by majority vote of a quorum consisting of disinterested directors, to cause the Corporation to indemnify or contract to indemnify any Person not specified in Section B or C of this Article who was, is or may become a party to any proceeding, by reason of the fact that he is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, to the same extent as if such Person were specified as one to whom indemnification is granted in Section C."

Article VII of the Surviving Charter includes the following indemnification provision which covers a potentially broader group of persons who may be indemnified:

"The Corporation may indemnify any other persons permitted but not required to be indemnified by Maryland law, as applicable from time to time, if and to the extent indemnification is authorized and determined to be appropriate, in each case in accordance with applicable law, by the Board of Directors."

We believe that such indemnification provision is standard practice for public companies incorporated in Maryland and will facilitate the Company's arrangements with third parties as appropriate.

Approval of Sub-Item 4B requires approval by a majority of all votes entitled to be cast by holders of record of shares of common stock and Series C convertible preferred stock, voting as a single class. Abstentions and broker shares that are not voted on this proposal have the same effect as a vote against the proposal.

If Sub-Item 4B is not approved by the shareholders, we will revise the Surviving Charter to provide coverage for additional persons only as specified in the provision above from the Company Charter.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR APPROVAL OF THE ADDITIONAL INDEMNIFICATION PROVISION IN THE SURVIVING CHARTER.

SUB-ITEM 4C. APPROVE THE POWER OF THE BOARD OF DIRECTORS IN THE SURVIVING CHARTER, WITHOUT ACTION BY THE SHAREHOLDERS, TO INCREASE OR DECREASE THE NUMBER OF SHARES OF AUTHORIZED STOCK

Article III of the Surviving Charter includes the following:

"The Board of Directors, with the approval of a majority of the entire Board of Directors, and without any action by the stockholders of the Corporation, may amend the Articles of Incorporation from time to time to increase or decrease the aggregate number of shares of stock of the Corporation or the number of shares of stock of any class or series that the Corporation has authority to issue."

The Company Charter sets the authorized number of the Company's shares and a change in the number of authorized shares of the Company currently requires an amendment to the Company Charter, which requires the affirmative vote of the majority of the votes entitled to be cast by the holders of the common stock and Series C preferred stock voting as a single voting group.

The Board of Directors believes that an enhanced flexibility to increase in the number of authorized shares would provide the Company enhanced flexibility in corporate planning, including possible stock issuances to access external sources of capital, acquire hotels and other general corporate purposes (although no specific stock issuances are currently contemplated).

Unless otherwise required by applicable law or the Nasdaq Global Market, or any other exchange on which the Company shares are then listed for trading, any additional shares of authorized stock will be issuable without shareholder approval and on such terms and for such consideration as may be determined by the Board of Directors.

We believe the Board of Directors should have the flexibility to adjust the number of the Company's authorized shares as it determines to be in the best interests of the Company and its shareholders from time to time without delay or expense for obtaining shareholder approval.

Approval of Sub-Item 4C requires approval by a majority of all votes entitled to be cast by holders of record of shares of common stock and Series C convertible preferred stock, voting as a single class. Abstentions and broker shares that are not voted on this proposal have the same effect as a vote against the proposal.

If Sub-Item 4C is not approved by the shareholders, we will revise the Surviving Charter to eliminate the above provision that would allow the Board of Directors, without action by the shareholders, to make changes in the number of authorized shares of stock.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR APPROVAL OF THE POWER OF THE BOARD OF DIRECTORS IN THE SURVIVING CHARTER, WITHOUT ACTION BY THE SHAREHOLDERS, TO INCREASE OR DECREASE THE NUMBER OF SHARES OF AUTHORIZED STOCK.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under United States securities laws, the Company's directors and executive officers, and persons who own more than 10% of our common stock, are required to report their ownership of the common stock and any changes in ownership to the Securities and Exchange Commission (the "SEC"). These persons are also required by SEC regulations to furnish the Company with copies of these reports. Specific due dates for these reports have been established, and the Company is required to report in this Proxy Statement any failure to file such reports by those due dates during the 2013 fiscal year.

Based solely upon a review of the reports furnished to the Company or written representations from the Company's directors and executive officers, the Company believes that all of these filing requirements were satisfied by the Company's directors and executive officers, and owners of more than 10% of the common stock on a timely basis except Form 4's for each of Mr. Walters and Ms. Scarpello reporting shares deducted to cover vesting of restricted stock awards were inadvertently filed eleven days late.

SHAREHOLDER PROPOSALS FOR 2015 ANNUAL MEETING

If any shareholder intends to present a proposal to be considered for inclusion in the Company's proxy materials in connection with the 2015 Annual Meeting, the proposal must be in proper form and must be received by the Company at its main office in Norfolk, Nebraska, on or before January 1, 2015.

The Company's bylaws set forth certain procedures which shareholders must follow in order to nominate a director or present any other business at an annual shareholders' meeting. Generally, a shareholder must give timely notice to the Secretary of the Company. To be timely, such notice must be received by the Company at its principal executive offices not less than ninety days prior to the annual meeting. The bylaws specify the information which must accompany such shareholder notice. Details of the provision of the bylaws may be obtained by any shareholder from the Secretary of the Company.

OTHER MATTERS

As of the date of this Proxy Statement, management knows of no other business to be brought before the Annual Meeting. If any other matters properly come before the Annual Meeting, the proxies will be voted on such matters in accordance with the judgment of the persons named as proxies therein, or their substitutes, present and acting at the meeting.

The Company will furnish to each beneficial owner of Common Stock entitled to vote at the Annual Meeting, upon written request to the attention of Investor Relations at 1800 West Pasewalk Avenue, Suite 200, Norfolk, NE 68701, additional copies of the Company's Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2013, including the financial statements and financial statement schedules as filed by the Company with the SEC.

By Order of the Board of Directors,

James H. Friend
Chairman

May 1, 2014

Appendix A

ARTICLES OF AMENDMENT OF THE
AMENDED AND RESTATED ARTICLES OF INCORPORATION OF
SUPERTEL HOSPITALITY, INC.

I.

The name of the corporation is Supertel Hospitality, Inc. (the "Corporation").

II.

The amendment (the "Amendment") adopted is as follows:

Section A of Article V of the Corporation's Amended and Restated Articles of Incorporation is amended in its entirety to read as follows:

> "A. The Corporation shall have a Board of Directors consisting of not less than three (3) nor more than eleven (11) members unless otherwise determined from time to time by resolution adopted by the affirmative vote of a majority of the shareholders. A director need not be a shareholder. At the annual meeting of shareholders, the shareholders shall elect directors to serve a one-year term and until their successors are duly elected and qualified."

III.

The foregoing Amendment was proposed by the Corporation's Board of Directors, which found adoption of the Amendment to be in the Corporation's best interest and directed that the Amendment be submitted to a vote at a meeting of the Corporation's shareholders on [ ], 2014.

IV.

On [ ], 2014, notice of the meeting of the Corporation's shareholders, accompanied by a copy of this Amendment, was given in the manner provided in the Virginia Stock Corporation Act to each of the Corporation's shareholders of record.

V.

The designation, number of outstanding shares, and number of votes entitled to be cast by each voting group entitled to vote separately on the Amendment was:

Designation	Number of Outstanding Shares	Number of Votes Entitled to be Cast
Common Stock, $0.01 par value per share and Series C Cumulative Convertible Preferred Stock, $.01 par value per share, voting as one group		

The total number of votes cast for and against the Amendment by each voting group entitled to vote separately on the Amendment was:

Voting Group	Votes "FOR"	Votes "AGAINST"
Common Stock, $0.01 par value per share and Series C Cumulative Convertible Preferred Stock, $.01 par value per share, voting as one group		

The total number of votes cast for the Amendment by each voting group was sufficient for approval of the Amendments by the voting group.

VI.

Pursuant to Section 13.1-606 of the Virginia Stock Corporation Act, this Amendment shall become effective at [:] a.m/p.m., Eastern Time, on [ ], [ ], 201__.

IN WITNESS WHEREOF, the undersigned corporation has caused these Articles of Amendment to be executed by its duly authorized Chief Executive Officer as of this __ day of _________, 201__.

SUPERTEL HOSPITALITY, INC., a Virginia corporation

By: ____
Name:
Title:

Appendix B

Agreement and Plan of Merger

AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger (this "**Agreement**"), dated as of _________, 2014, is by and between **Supertel Hospitality, Inc.**, a Virginia corporation ("**Supertel**") and **Supertel Hospitality, Inc.**, a Maryland corporation and a wholly-owned subsidiary of Supertel ("**Supertel Maryland**").

WITNESSETH:

WHEREAS, Supertel is a corporation duly formed under the laws of the State of Virginia;

WHEREAS, Supertel Maryland is a corporation duly formed under the laws of the State of Maryland; and

WHEREAS, the board of directors Supertel and the board of directors and sole shareholder of Supertel Maryland each deems it advisable, upon the terms and subject to the conditions of this Agreement, including the approval, as provided herein, of the shareholders of Supertel, that Supertel be reincorporated as a Maryland corporation by the merger of Supertel with and into Supertel Maryland where Supertel Maryland will be the surviving entity; and

WHEREAS, Section 13.1-716 of the Virginia Stock Corporation Act and Section 3-102 of the Maryland General Corporation Law ("**MGCL**") permit the merger of a Virginia corporation with and into a Maryland corporation.

NOW, THEREFORE, in consideration of the premises and the agreements set forth herein, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

THE MERGER

Section 1.01. **The Merger**. Upon the terms and subject to the conditions set forth in this Agreement and in accordance with the laws of the State of Virginia and the State of Maryland, Supertel shall be merged with and into Supertel Maryland (the "**Merger**"). As a result of the Merger, the identity and separate existence of Supertel shall cease and Supertel Maryland shall continue as the surviving entity of the Merger (sometimes referred to herein as the "**Surviving Corporation**").

Section 1.02. **Effective Time**. The parties shall cause the Merger to be consummated by filing a certificate of merger with the State Corporation Commission of the Commonwealth of Virginia and articles of merger with the State Department of Assessments and Taxation of the State of Maryland, as required by, and executed in accordance with the relevant laws of the State of Virginia and the State of Maryland, all to be effective as of the time of acceptance of the articles of merger by the State Corporation Commission of the Commonwealth of Virginia and the State Department of Assessments and Taxation of the State of Maryland (the "**Effective Time**").

Section 1.03. **Effect of the Merger**. At the Effective Time, the effect of the Merger shall be as provided under the laws of the State of Virginia and the State of Maryland. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the rights, privileges, powers and franchises of Supertel, shall vest in the Surviving Corporation, and all debts, liabilities and duties of Supertel shall become the debts, liabilities and duties of the Surviving Corporation.

Section 1.04. **Charter and Bylaws**. The charter and bylaws of Supertel Maryland in effect at the Effective Time of the Merger will be the charter and bylaws of Supertel Maryland as the Surviving Corporation until further amended in accordance with their terms and the MGCL.

Section 1.05. **Directors and Officers**. The executive officers of Supertel Maryland immediately prior to the Effective Time will be the executive officers of the Surviving Corporation thereafter, without change, until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's charter and bylaws. The directors of Supertel Maryland immediately prior to the Effective Time will be the directors of the Surviving Corporation thereafter, without change, until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's charter and bylaws.

Section 1.06. **Subsequent Actions**. If, at any time after the Effective Time, the Surviving Corporation shall consider or be advised that any deeds, bills of sale, assignments, assurances or any other actions or things are necessary or desirable to continue in, vest, perfect or confirm of record or otherwise in the Surviving Corporation its right, title or interest in, to or under any of the rights, properties, privileges, franchises or assets of Supertel acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger or otherwise to carry out this Agreement, the proper officers of the Surviving Corporation shall be and hereby are directed and authorized to execute and deliver, in the name and on behalf of Supertel, all such deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of Supertel or otherwise, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties, privileges, franchises or assets in the Surviving Corporation or otherwise to carry out this Agreement.

Section 1.07. **Further Assurances**. Each of Supertel and Supertel Maryland will execute or cause to be executed all documents and will take or cause to be taken all actions and do or cause to be done all things necessary, proper or advisable under the laws of the State of Virginia and the State of Maryland to consummate and effect the Merger and further the purpose of this Agreement.

Section 1.08. **Conditions**. Consummation of the Merger and related transactions is subject to satisfaction of the following conditions prior to the Effective Time:

a) The Merger must have been approved by the requisite vote of shareholders of Supertel and Supertel Maryland, and all other necessary action must have taken place to authorize the execution, delivery and performance of this Agreement by Supertel and Supertel Maryland.

b) All regulatory approvals and, as deemed necessary by Supertel and Supertel Maryland, any third party consents, in connection with the consummation of the Merger and the transactions contemplated thereby must have been obtained.

Section 1.09. **Termination; Amendment**. This Agreement may be terminated and the Merger abandoned or deferred by either Supertel or Supertel Maryland by appropriate resolution of the board of directors of either Supertel or Supertel Maryland at any time prior to the Effective Time notwithstanding approval of this Agreement by the shareholders of Supertel or Supertel Maryland, or both, if circumstances arise which, in the opinion of the board of directors of Supertel or Supertel Maryland make the Merger inadvisable or such deferral of the time of consummation of the Merger advisable. Subject to applicable law and subject to any rights of the shareholders to approve any amendment, this Agreement may be amended, modified or supplemented by written agreement of the parties hereto at any time prior to the Effective Time with respect to any of the terms contained herein.

ARTICLE II

CONVERSION OF SHARES

Section 2.01. **Conversion of Outstanding Capital Stock**. Upon the Effective Date, by virtue of the merger and without any action on the part of any holder thereof:

a) each issued share of Supertel common stock, $0.01 par value per share, outstanding immediately prior thereto shall be converted into one (1) fully paid and nonassessable share of Supertel Maryland common stock, $0.01 par value per share;

b) each issued share of Series A Convertible Preferred Stock, $0.01 par value per share, outstanding immediately prior thereto shall be converted into one (1) fully paid and nonassessable share of Supertel Maryland Series A Cumulative Preferred Stock, $0.01 par value per share;

c) each issued share of Series B Cumulative Preferred Stock, $0.01 par value per share, outstanding immediately prior thereto shall be converted into one (1) fully paid and nonassessable share of Supertel Maryland Series B Cumulative Preferred Stock, $0.01 par value per share; and

d) each issued share of Series C Convertible Preferred Stock, $0.01 par value per share, outstanding immediately prior thereto shall be converted into one (1) fully paid and nonassessable share of Supertel Maryland Series A Preferred Stock, $0.01 par value per share.

Section 2.02. **Stock Certificates and Documentation.** At and after the Effective Time, all documentation which prior to that time evidenced and represented the shares of Supertel common stock or the shares of Supertel preferred stock, as applicable, shall be deemed for all purposes to evidence ownership of and to represent those shares of shares of Supertel Maryland common stock or Supertel Maryland preferred stock, as applicable, into which the Supertel common stock or the Supertel preferred stock, as applicable, represented by such documentation has been converted as herein provided and shall be so registered on the books and records of Supertel Maryland. The registered owner of any outstanding stock certificate evidencing the Supertel common stock or the Supertel preferred stock, as applicable, shall, until such certificate shall have been surrendered for transfer or conversion or otherwise accounted for to Supertel Maryland or its transfer agent, have and be entitled to exercise any voting and other rights with respect to and to receive any dividend and other distributions upon the shares of Supertel Maryland common stock or shares of Supertel Maryland preferred stock, as applicable, evidenced by such outstanding certificate as above provided.

Section 2.03. **Options, Warrants and Convertible Securities**. Upon the Effective Date, each outstanding option, warrant and right to purchase Supertel common stock, including those options granted under the Supertel 2006 Stock Plan and warrants issued pursuant to the Warrant Agreements, dated as of February 1, 2012 and February 15, 2012, between Supertel and Real Estate Strategies, L.P. (collectively, the "**Warrant Agreement**"), shall be converted into and become an option, warrant, or right to purchase the number of shares of Supertel Maryland common stock determined by multiplying the number of shares of Supertel common stock subject to the option, warrant or right to purchase by the number one (1), at a price per share equal to the same exercise price of the option, warrant or right to purchase Supertel common stock, and upon the same terms and subject to the same conditions as set forth in the Supertel 2006 Stock Plan, the Warrant Agreement and any other plan or agreement entered into by Supertel pertaining to such options, warrants or rights. A number of shares of Supertel Maryland common stock of the relevant class and series shall be reserved for purposes of the options, warrants and rights described in the preceding sentence equal to the number of shares of Supertel common stock so reserved as of the Effective Date. As of the Effective Date, Supertel Maryland shall assume all obligations of Supertel under agreements pertaining to such options, warrants and rights, including the Supertel 2006 Stock Plan and the Warrant Agreement, and the outstanding options, warrants or other rights, or portions thereof, granted pursuant thereto.

ARTICLE III

GOVERNING LAW

This Agreement shall be construed in accordance with and governed by the laws of the State of Maryland, without giving effect to principles of conflicts of laws.

[Signatures begin on the following page]

IN WITNESS WHEREOF, Supertel and Supertel Maryland have each caused this Agreement to be duly executed under seal, all as of the date first above written.

SUPERTEL HOSPITALITY, INC., a
Virginia corporation

By: ______________________________
Name: Kelly A. Walters
Title: Chief Executive Officer

SUPERTEL HOSPITALITY TRUST, INC., a
Maryland corporation

By: ______________________________
Name: Kelly A. Walters
Title: Chief Executive Officer

Appendix C

ARTICLES OF INCORPORATION

OF

SUPERTEL HOSPITALITY, INC.

I.
NAME

The name of the corporation (which is hereinafter called the "Corporation") is Supertel Hospitality, Inc.

II.
PURPOSE

The purpose for which this Corporation is formed is to transact any and all lawful business, not required to be specifically stated in these Articles, for which corporations may be incorporated under the Maryland General Corporation Law, as amended from time to time.

III.
STOCK

The total number of shares of stock that the Corporation has authority to issue is 200,000,000 shares of Common Stock, $.01 par value per share, and 40,000,000) shares of Preferred Stock, $.01 par value per share. The Board of Directors, with the approval of a majority of the entire Board of Directors, and without any action by the stockholders of the Corporation, may amend the Articles of Incorporation from time to time to increase or decrease the aggregate number of shares of stock of the Corporation or the number of shares of stock of any class or series that the Corporation has authority to issue.

No holder of shares of capital stock of the Corporation shall have any preemptive or preferential right to subscribe to or purchase (i) any shares of any class of the Corporation, whether now or hereafter authorized; (ii) any warrants, rights, or options to purchase any such shares; or (iii) any securities or obligations convertible into any such shares or into warrants, rights, or options to purchase any such shares.

The Preferred Stock may be issued from time to time by the Board of Directors of the Corporation, in such series and with such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or other provisions as may be fixed by the Board of Directors.

IV.
PRINCIPAL OFFICE AND RESIDENT AGENT

The name and address of the resident agent for service of process of the Corporation in the State of Maryland is CSC-Lawyers Incorporating Service Company, 7 St. Paul Street, Suite 1660, Baltimore, MD 21202. The address of the Corporation's principal office in the State of Maryland is c/o CSC-Lawyers Incorporating Service Company, 7 St. Paul Street, Suite 1660, Baltimore, MD 21202. The Corporation may have such other offices and places of business within or outside the State of Maryland as the board of directors may from time to time determine.

V.
BOARD OF DIRECTORS

A. The Corporation shall have a Board of Directors consisting of not less than three (3) nor more than eleven (11) members. A director need not be a shareholder. At the annual meeting of shareholders, the

shareholders shall elect directors to serve a one-year term and until their successors are duly elected and qualified.

B. Notwithstanding anything herein to the contrary, at all times (except during a period not to exceed sixty (60) days following the death, resignation, incapacity or removal from office of a director prior to expiration of the director's term of office), a majority of the Board of Directors shall be comprised of persons who are "Independent Directors." Independent Directors are persons who are not officers or employees of the Corporation or "Affiliates" of (i) any advisor to the Corporation under an advisory agreement, (ii) any lessee of any property of the Corporation, (iii) any subsidiary of the Corporation or (iv) any partnership which is an Affiliate of the Corporation.

C. For purposes of the foregoing subsection, "Affiliate" of a person shall mean (i) any person that, directly or indirectly, controls or is controlled by or is under common control with such person, (ii) any other person that owns, beneficially, directly or indirectly, five percent (5%) or more of the outstanding capital stock, shares or equity interests of such person, or (iii) any officer, director, employee, partner or trustee of such person or any person controlling, controlled by or under common control with such person (excluding directors and persons serving in similar capacities who are not otherwise an Affiliate of such person). The term "person" means and includes individuals, corporations, general and limited partnerships, stock companies or associations, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts, or other entities and governments and agencies and political subdivisions thereof. For the purposes of this definition, "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, through the ownership of voting securities, partnership interests or other equity interests.

D. Notwithstanding any other provisions of these Articles of Incorporation or the bylaws of the Corporation (and notwithstanding that some lesser percentage may be specified by law, these Articles of Incorporation or the bylaws of the Corporation), the provisions of this Article V shall not be amended, altered, changed or repealed without the approval of a majority of the members of the Board of Directors or the affirmative vote of the holders of not less than a majority of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting separately as a class.

VI.
AMENDMENTS

Except as expressly otherwise required by these Articles of Incorporation, (i) an amendment to or restatement of these Articles of Incorporation for which the Maryland General Corporation Law requires shareholder approval, (ii) the approval of a plan of merger or share exchange for which the Maryland General Corporation Law requires shareholder approval, (iii) the approval of a sale of all, or substantially all of the Corporation's property, other than in the usual and regular course of business or (iv) the approval of the dissolution of the Corporation shall be approved by a majority of the votes entitled to be cast by each voting group that is entitled to vote on the matter, unless in submitting any such matter to the shareholders the Board of Directors shall require a greater vote.

VII.
LIMITATION OF LIABILITY AND INDEMNIFICATION

A. To the maximum extent that Maryland law in effect from time to time permits limitation of the liability of directors and officers of a corporation, no present or former director or officer of the Corporation or its predecessor shall be liable to the Corporation or its stockholders for money damages. To the maximum extent permitted by Maryland law in effect from time to time, the Corporation shall indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, shall pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (a) any individual who is a present or former director or officer of the Corporation or its predecessor and who is made or threatened to be made a party to, or witness in, the proceeding by reason of his or her service in that capacity or (b) any individual who, while a director or officer of the Corporation or its predecessor and at the request of the Corporation or its predecessor, serves or has served as a director, officer, trustee, member, manager or partner of

another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made or threatened to be made a party to, or witness in, the proceeding by reason of his or her service in that capacity. The rights to indemnification and advance of expenses provided by the Articles of Incorporation and bylaws shall vest immediately upon election of a director or officer. The Corporation may indemnify any other persons permitted but not required to be indemnified by Maryland law, as applicable from time to time, if and to the extent indemnification is authorized and determined to be appropriate, in each case in accordance with applicable law, by the Board of Directors. The indemnification and payment or reimbursement of expenses provided in this Articles of Incorporation shall not be deemed exclusive of or limit in any way other rights to which any person seeking indemnification or payment or reimbursement of expenses may be or may become entitled under any bylaw, resolution, insurance, agreement or otherwise.

B. No amendment of the Articles of Incorporation or repeal of any of its provisions shall limit or eliminate any of the benefits provided to directors and officers under this Article VII in respect of any act or omission that occurred prior to such amendment or repeal.

VIII.
REIT STATUS

The Corporation shall seek to elect and maintain status as a REIT under the Code. It shall be the duty of the Board of Directors to ensure that the Corporation satisfies the requirements for qualification as a REIT under the Code, including, but not limited to, the ownership of its outstanding stock, the nature of its assets, the sources of its income, and the amount and timing of its distributions to its shareholders. The Board of Directors shall take no action to disqualify the Corporation as a REIT or to otherwise revoke the Corporation's election to be taxed as a REIT without the affirmative vote of two-thirds (2/3) of the number of shares of Common Stock entitled to vote on such matter at a special meeting of the shareholders.

IX.
OWNERSHIP LIMITATIONS

A. Restrictions on Transfer.

1. Definitions. The following terms shall have the following meanings:

"Beneficial Ownership" shall mean ownership of shares of Equity Stock by a Person who would be treated as an owner of such shares of Equity Stock either directly or indirectly through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms "Beneficial Owner," "Beneficially Owns," and "Beneficially Owned" shall have correlative meanings.

"Beneficiary" shall mean, with respect to any Trust, one or more organizations described in each of Section 170(b)(1)(A) (other than clauses (vii) or (viii) thereof) and Section 170(c)(2) of the Code that are named by the Corporation as the beneficiary or beneficiaries of such Trust, in accordance with the provisions of Section (B)(1) of Article IX hereof.

"Board of Directors" shall mean the Board of Directors of the Corporation.

"Constructive Ownership" shall mean ownership of shares of Equity Stock by a Person who would be treated as an owner of such shares of Equity Stock either directly or indirectly through the application of Section 318 of the Code, as modified by Section 856(d)(5) of the Code. The terms "Constructive Owner," "Constructively Owns," and "Constructively Owned" shall have correlative meanings.

"Equity Stock" shall mean Preferred Stock and Common Stock of the Corporation. The term "Equity Stock" shall include all shares of Preferred Stock and Common Stock of the Corporation that are held as Shares-in-Trust in accordance with the provisions of Section (B) of Article IX hereof.

"Market Price" on any date shall mean the average of the Closing Price for the five consecutive Trading Days ending on such date. The "Closing Price" on any date shall mean the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or the Nasdaq Stock Market or, if the shares of Equity Stock are not listed or admitted to trading on the New York Stock Exchange or the Nasdaq Stock Market, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Equity Stock are listed or admitted to trading or, if the shares of Equity Stock are not listed or admitted to trading on any national securities exchange, the last quoted price, or if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer in use, the principal other automated quotations system that may then be in use or, if the shares of Equity Stock are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the shares of Equity Stock selected by the Board of Directors.

"Non-Transfer Event" shall mean an event other than a purported Transfer that would cause any Person to Beneficially Own or Constructively Own shares of Equity Stock in excess of the Ownership Limit, including, but not limited to, the granting of any option or entering into any agreement for the sale, transfer or other disposition of shares of Equity Stock or the sale, transfer, assignment or other disposition of any securities or rights convertible into or exchangeable for shares of Equity Stock.

"Ownership Limit" shall mean, with respect to the Common Stock, 9.9% of the number of outstanding shares of Common Stock and, with respect to any class or series of Preferred Stock, 9.9% of the number of outstanding shares of such class or series of Preferred Stock.

"Permitted Transferee" shall mean any Person designated as a Permitted Transferee in accordance with the provisions of Section (B)(5) of Article IX hereof.

"Person" shall mean an individual, corporation, partnership, estate, trust, a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity and also includes a "group" as that term is used for purposes of Section 12(d)(3) of the Securities Exchange Act of 1934, as amended.

"Prohibited Owner" shall mean, with respect to any purported Transfer or Non-Transfer Event, any Person who, but for the provisions of Section (A)(3) of Article IX hereof, would own record title to shares of Equity Stock.

"Redemption Rights" shall mean the rights granted under the Supertel Limited Partnership Agreement to the limited partners to redeem, under certain circumstances, their limited partnership interests for shares of Common Stock (or cash at the option of the Corporation).

"Restriction Termination Date" shall mean the first day after which (i) the Board of Directors determines that it is no longer in the best interests of the Corporation to attempt to, or continue to, qualify as a REIT and (ii) there is an affirmative vote of two-thirds of the number of shares of Common Stock entitled to vote on such matter at a special meeting of the shareholders of the Corporation.

"Shares-in-Trust" shall mean any shares of Equity Stock designated Shares-in-Trust pursuant to Section (A)(3) of Article IX hereof.

"Supertel Limited Partnership Agreement" shall mean the agreement of limited partnership establishing Supertel Limited Partnership, a Virginia limited partnership, as amended and restated from time to time.

"Trading Day" shall mean a day on which the principal national securities exchange on which the shares of Equity Stock are listed or admitted to trading is open for the transaction of business or, if the shares of Equity Stock are not listed or admitted to trading on any national securities exchange, shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

"Transfer" (as a noun) shall mean any sale, transfer, gift, assignment, devise or other disposition of shares of Equity Stock, whether voluntary or involuntary, whether of record, constructively or beneficially and whether by operation of law or otherwise. "Transfer" (as a verb) shall not have the correlative meaning.

"Trust" shall mean any separate trust created pursuant to Section (A)(3) of Article IX hereof and administered in accordance with the terms of Section (B) of Article IX hereof, for the exclusive benefit of any Beneficiary.

"Trustee" shall mean any Person or entity unaffiliated with both the Corporation and any Prohibited Owner, such Trustee to be designated by the Corporation to act as trustee of any Trust, or any successor trustee thereof.

2. Restriction on Transfers.

(a) Except as provided in Section (A)(7) of Article IX hereof, prior to the Restriction Termination Date, (i) no Person shall Beneficially Own or Constructively Own outstanding shares of Equity Stock in excess of the Ownership Limit and (ii) any Transfer that, if effective, would result in any Person Beneficially Owning or Constructively Owning shares of Equity Stock in excess of the Ownership Limit shall be void ab initio as to the Transfer of that number of shares of Equity Stock which would be otherwise Beneficially Owned or Constructively Owned by such Person in excess of the Ownership Limit, and the intended transferee shall acquire no rights in such excess shares of Equity Stock.

(b) Except as provided in Section (A)(7) of Article IX hereof, prior to the Restriction Termination Date, any Transfer that, if effective, would result in shares of Equity Stock being beneficially owned by fewer than 100 Persons (determined without reference to any rules of attribution) shall be void ab initio as to the Transfer of that number of shares which would be otherwise beneficially owned (determined without reference to any rules of attribution) by the transferee, and the intended transferee shall acquire no rights in such shares of Equity Stock.

(c) Prior to the Restriction Termination Date, any Transfer of shares of Equity Stock that, if effective, would result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code shall be void ab initio as to the Transfer of that number of shares of Equity Stock which would cause the Corporation to be "closely held" within the meaning of Section 856(h) of the Code, and the intended transferee shall acquire no rights in such shares of Equity Stock.

(d) Prior to the Restriction Termination Date, any Transfer of shares of Equity Stock that, if effective, would cause the Corporation to Constructively Own 10% or more of the ownership interests in a tenant of the Corporation's real property, within the meaning of Section 856(d)(2)(B) of the Code, shall be void ab initio as to the Transfer of that number of shares of Equity Stock which would cause the Corporation to Constructively Own 10% or more of the ownership interests in a tenant of the Corporation's real property, within the meaning of Section 856(d)(2)(B) of the Code, and the intended transferee shall acquire no rights in such excess shares of Equity Stock.

3. Transfer to Trust.

(a) If, notwithstanding the other provisions contained in this Section (A) of Article IX, at any time prior to the Restriction Termination Date, there is a purported Transfer or Non-Transfer Event such that any Person would either Beneficially Own or Constructively Own shares of Equity Stock in excess of the Ownership Limit, then, (i) except as otherwise provided in Section (A)(7) of Article IX hereof, the

purported transferee shall acquire no right or interest (or, in the case of a Non-Transfer Event, the Person holding record title to the shares of Equity Stock Beneficially Owned or Constructively Owned by such Beneficial Owner or Constructive Owner, shall cease to own any right or interest) in such number of shares of Equity Stock which would cause such Beneficial Owner or Constructive Owner to Beneficially Own or Constructively Own shares of Equity Stock in excess of the Ownership Limit, (ii) such number of shares of Equity Stock in excess of the Ownership Limit (rounded up to the nearest whole share) shall be designated Shares-in-Trust and, in accordance with the provisions of Section (B) of Article IX hereof, transferred automatically and by operation of law to the Trust to be held in accordance with that Section (B) of Article IX, and (iii) the Prohibited Owner shall submit such number of shares of Equity Stock to the Corporation for registration in the name of the Trustee. Such transfer to a Trust and the designation of shares as Shares-in-Trust shall be effective as of the close of business on the business day prior to the date of the Transfer or Non-Transfer Event, as the case may be.

(b) If, notwithstanding the other provisions contained in this Section (A) of Article IX, at any time prior to the Restriction Termination Date, there is a purported Transfer or Non-Transfer Event that, if effective, would (i) result in the shares of Equity Stock being beneficially owned by fewer than 100 Persons (determined without reference to any rules of attribution), (ii) result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code, or (iii) cause the Corporation to Constructively Own 10% or more of the ownership interests in a tenant of the Corporation's real property, within the meaning of Section 856(d)(2)(B) of the Code, then (x) the purported transferee shall not acquire any right or interest (or, in the case of a Non-Transfer Event, the Person holding record title of the shares of Equity Stock with respect to which such Non-Transfer Event occurred, shall cease to own any right or interest) in such number of shares of Equity Stock, the ownership of which by such purported transferee or record holder would (A) result in the shares of Equity Stock being beneficially owned by fewer than 100 Persons (determined without reference to any rules of attribution), (B) result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code, or (C) cause the Corporation to Constructively Own 10% or more of the ownership interests in a tenant of the Corporation's real property, within the meaning of Section 856(d)(2)(B) of the Code, (y) such number of shares of Equity Stock (rounded up to the nearest whole share) shall be designated Shares-in-Trust and, in accordance with the provisions of Section (B) of Article IX hereof, transferred automatically and by operation of law to the Trust to be held in accordance with that Section (B) of Article IX, and (z) the Prohibited Owner shall submit such number of shares of Equity Stock to the Corporation for registration in the name of the Trustee. Such transfer to a Trust and the designation of shares as Shares-in-Trust shall be effective as of the close of business on the business day prior to the date of the Transfer or Non-Transfer Event, as the case may be.

4. Remedies For Breach. If the Corporation, or its designees, shall at any time determine in good faith that a Transfer has taken place in violation of Section (A)(2) of Article IX hereof or that a Person intends to acquire or has attempted to acquire Beneficial Ownership or Constructive Ownership of any shares of Equity Stock in violation of Section (A)(2) of Article IX hereof, the Corporation shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or acquisition, including, but not limited to, refusing to give effect to such Transfer on the books of the Corporation or instituting proceedings to enjoin such Transfer or acquisition.

5. Notice of Restricted Transfer. Any Person who acquires or attempts to acquire shares of Equity Stock in violation of Section (A)(2) of Article IX hereof, or any Person who owned shares of Equity Stock that were transferred to the Trust pursuant to the provisions of Section (A)(3) of Article IX hereof, shall immediately give written notice to the Corporation of such event and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer or Non-Transfer Event, as the case may be, on the Corporation's status as a REIT.

6. Owners Required To Provide Information. Prior to the Restriction Termination Date:

(a) Every Beneficial Owner or Constructive Owner of more than 5%, or such lower percentages as required pursuant to regulations under the Code, of the outstanding shares of all classes of capital stock of the Corporation shall, within 30 days after January 1 of each year, provide to the

Corporation a written statement or affidavit stating the name and address of such Beneficial Owner or Constructive Owner, the number of shares of Equity Stock Beneficially Owned or Constructively Owned, and a description of how such shares are held. Each such Beneficial Owner or Constructive Owner shall provide to the Corporation such additional information as the Corporation may request in order to determine the effect, if any, of such Beneficial Ownership or Constructive Ownership on the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.

(b) Each Person who is a Beneficial Owner or Constructive Owner of shares of Equity Stock and each Person (including the stockholder of record) who is holding shares of Equity Stock for a Beneficial Owner or Constructive Owner shall provide to the Corporation a written statement or affidavit stating such information as the Corporation may request in order to determine the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.

7. Exception. The Ownership Limit shall not apply to the acquisition of shares of Equity Stock by an underwriter that participates in a public offering of such shares for a period of 90 days following the purchase by such underwriter of such shares provided that the restrictions contained in Section (A)(2) of Article IX hereof will not be violated following the distribution by such underwriter of such shares. In addition, the Board of Directors, upon receipt of a ruling from the Internal Revenue Service or an opinion of counsel in each case to the effect that the restrictions contained in Section (A)(2)(B), Section (A)(2)(C), and/or Section (A)(2)(D) of Article IX hereof will not be violated, may exempt a Person from the Ownership Limit provided that (i) the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that no individual's Beneficial Ownership or Constructive Ownership of shares of Equity Stock will violate the Ownership Limit and (ii) such Person agrees in writing that any violation or attempted violation will result in such transfer to the Trust of shares of Equity Stock pursuant to Section (A)(3) of Article IX hereof.

B. Shares-in-Trust.

1. Trust. Any shares of Equity Stock transferred to a Trust and designated Shares-in-Trust pursuant to Section (A)(3) of Article IX hereof shall be held for the exclusive benefit of the Beneficiary. The Corporation shall name a Beneficiary for each Trust within five days after discovery of the existence thereof. Any transfer to a Trust, and subsequent designation of shares of Equity Stock as Shares-in-Trust, pursuant to Section (A)(3) of Article IX hereof shall be effective as of the close of business on the business day prior to the date of the Transfer or Non-Transfer Event that results in the transfer to the Trust. Shares-in-Trust shall remain issued and outstanding shares of Equity Stock of the Corporation and shall be entitled to the same rights and privileges on identical terms and conditions as are all other issued and outstanding shares of Equity Stock of the same class and series. When transferred to a Permitted Transferee in accordance with the provisions of Section (B)(5) of Article IX hereof, such Shares-in-Trust shall cease to be designated as Shares-in-Trust.

2. Dividend Rights. The Trust, as record holder of Shares-in-Trust, shall be entitled to receive all dividends and distributions as may be declared by the Board of Directors on such shares of Equity Stock and shall hold such dividends or distributions in trust for the benefit of the Beneficiary. The Prohibited Owner with respect to Shares-in-Trust shall repay to the Trust the amount of any dividends or distributions received by it that (i) are attributable to any shares of Equity Stock designated Shares-in-Trust and (ii) the record date of which was on or after the date that such shares became Shares-in-Trust. The Corporation shall take all measures that it determines reasonably necessary to recover the amount of any such dividend or distribution paid to a Prohibited Owner, including, if necessary, withholding any portion of future dividends or distributions payable on shares of Equity Stock Beneficially Owned or Constructively Owned by the Person who, but for the provisions of Section (A)(3) of Article IX hereof, would Constructively Own or Beneficially Own the Shares-in-Trust; and, as soon as reasonably practicable following the Corporation's receipt or withholding thereof, shall pay over to the Trust for the benefit of the Beneficiary the dividends so received or withheld, as the case may be.

3. Rights Upon Liquidation. In the event of any voluntary or involuntary liquidation, dissolution or winding up of, or any distribution of the assets of, the Corporation, each holder of Shares-in-Trust shall be entitled to receive, ratably with each other holder of shares of Equity Stock of the same class or series, that portion of the assets of the Corporation which is available for distribution to the holders of such class and series of shares of Equity Stock. The Trust shall distribute to the Prohibited Owner the amounts received upon such liquidation, dissolution, or winding up, or distribution; provided, however, that the Prohibited Owner shall not be entitled to receive amounts pursuant to this Section (B)(3) of Article IX in excess of, in the case of a purported Transfer in which the Prohibited Owner gave value for shares of Equity Stock and which Transfer resulted in the transfer of the shares to the Trust, the price per share, if any, such Prohibited Owner paid for the shares of Equity Stock and, in the case of a Non-Transfer Event or Transfer in which the Prohibited Owner did not give value for such shares (e.g., if the shares were received through a gift or devise) and which Non-Transfer Event or Transfer, as the case may be, resulted in the transfer of shares to the Trust, the price per share equal to the Market Price on the date of such Non-Transfer Event or Transfer. Any remaining amount in such Trust shall be distributed to the Beneficiary.

4. Voting Rights. The Trustee shall be entitled to vote all Shares-in-Trust. Any vote by a Prohibited Owner as a holder of shares of Equity Stock prior to the discovery by the Corporation that the shares of Equity Stock are Shares-in-Trust shall, subject to applicable law, be rescinded and shall be void ab initio with respect to such Shares-in-Trust and the Prohibited Owner shall be deemed to have given, as of the close of business on the business day prior to the date of the purported Transfer or Non-Transfer Event that results in the transfer to the Trust of shares of Equity Stock under Section (A)(3) of Article IX hereof, an irrevocable proxy to the Trustee to vote the Shares-in-Trust in the manner in which the Trustee, in its sole and absolute discretion, desires.

5. Designation of Permitted Transferee. The Trustee shall have the exclusive and absolute right to designate a Permitted Transferee of any and all Shares-in-Trust. In an orderly fashion so as not to materially adversely affect the Market Price of the Shares-in-Trust, the Trustee shall designate any Person as Permitted Transferee, provided, however, that (i) the Permitted Transferee so designated purchases for valuable consideration (whether in a public or private sale) the Shares-in-Trust and (ii) the Permitted Transferee so designated may acquire such Shares-in-Trust without such acquisition resulting in a transfer to a Trust and the redesignation of such shares of Equity Stock so acquired as Shares-in-Trust under Section (A)(3) of Article IX hereof. Upon the designation by the Trustee of a Permitted Transferee in accordance with the provisions of this Section (B)(5) of Article IX, the Trustee shall (i) cause to be transferred to the Permitted Transferee that number of Shares-in-Trust acquired by the Permitted Transferee, (ii) cause to be recorded on the books of the Corporation that the Permitted Transferee is the holder of record of such number of shares of Equity Stock, (iii) cause the Shares-in-Trust to be canceled, and (iv) distribute to the Beneficiary any and all amounts held with respect to the Shares-in-Trust after making that payment to the Prohibited Owner pursuant to Section (B)(6) of Article IX hereof.

6. Compensation to Record Holder of Shares of Equity Stock that Become Shares-in-Trust. Any Prohibited Owner shall be entitled (following discovery of the Shares-in-Trust and subsequent designation of the Permitted Transferee in accordance with Section (B)(5) of Article IX hereof or following the acceptance of the offer to purchase such shares in accordance with Section (B)(7) of Article IX hereof) to receive from the Trustee following the sale or other disposition of such Shares-in-Trust the lesser of (i) in the case of (a) a purported Transfer in which the Prohibited Owner gave value for shares of Equity Stock and which Transfer resulted in the transfer of the shares to the Trust, the price per share, if any, such Prohibited Owner paid for the shares of Equity Stock, or (b) a Non-Transfer Event or Transfer in which the Prohibited Owner did not give value for such shares (e.g., if the shares were received through a gift or devise) and which Non-Transfer Event or Transfer, as the case may be, resulted in the transfer of shares to the Trust, the price per share equal to the Market Price on the date of such Non-Transfer Event or Transfer, and (ii) the price per share received by the Trustee from the sale or other disposition of such Shares-in-Trust in accordance with Section (B)(5) of Article IX hereof. Any amounts received by the Trustee in

respect of such Shares-in-Trust and in excess of such amounts to be paid the Prohibited Owner pursuant to this Section (B)(6) shall be distributed to the Beneficiary in accordance with the provisions of Section (B)(5) of Article IX hereof. Each Beneficiary and Prohibited Owner waive any and all claims that they may have against the Trustee and the Trust arising out of the disposition of Shares-in-Trust, except for claims arising out of the gross negligence or willful misconduct of, or any failure to make payments in accordance with this Section (B), by such Trustee or the Corporation.

7. Purchase Right in Shares-in-Trust. Shares-in-Trust shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that created such Shares-in-Trust (or, in the case of devise, gift or Non-Transfer Event, the Market Price at the time of such devise, gift or Non-Transfer Event) and (ii) the Market Price on the date the Corporation, or its designee, accepts such offer. The Corporation shall have the right to accept such offer for a period of ninety days after the later of (i) the date of the Non-Transfer Event or purported Transfer which resulted in such Shares-in-Trust and (ii) the date the Corporation determines in good faith that a Transfer or Non-Transfer Event resulting in Shares-in-Trust has occurred, if the Corporation does not receive a notice of such Transfer or Non-Transfer Event pursuant to Section (A)(5) of Article IX hereof.

C. Remedies Not Limited. Nothing contained in this Article IX shall limit the authority of the Corporation to take such other action as it deems necessary or advisable to protect the Corporation and the interests of its shareholders by preservation of the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.

D. Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Article IX, including any definition contained in Section (A)(1) of Article IX hereof, the Board of Directors shall have the power to determine the application of the provisions of this Article IX with respect to any situation based on the facts known to it.

E. Legend. Each certificate for shares of Equity Stock shall bear the following legend:

"The shares of [Common or Preferred] Stock represented by this certificate are subject to restrictions on transfer for the purpose of the Corporation's maintenance of its status as a real estate investment trust under the Internal Revenue Code of 1986, as amended (the "Code"). No Person may (i) Beneficially Own or Constructively Own shares of Common Stock in excess of 9.9% of the number of outstanding shares of Common Stock, (ii) Beneficially Own or Constructively Own shares of any class or series of Preferred Stock in excess of 9.9% of the number of outstanding shares of such class or series of Preferred Stock, (iii) beneficially own shares of Equity Stock that would result in the shares of Equity Stock being beneficially owned by fewer than 100 Persons (determined without reference to any rules of attribution), (iv) Beneficially Own shares of Equity Stock that would result in the Corporation being "closely held" under Section 856(h) of the Code, or (v) Constructively Own shares of Equity Stock that would cause the Corporation to Constructively Own 10% or more of the ownership interests in a tenant of the Corporation's real property, within the meaning of Section 856(d)(2)(B) of the Code. Any Person who attempts to Beneficially Own or Constructively Own shares of Equity Stock in excess of the above limitations must immediately notify the Corporation in writing. If the restrictions above are violated, the shares of Equity Stock represented hereby will be transferred automatically and by operation of law to a Trust and shall be designated Shares-in-Trust. All capitalized terms in this legend have the meanings defined in the Corporation's Amended and Restated Articles of Incorporation, as the same may be further amended from time to time, a copy of which, including the restrictions on transfer, will be sent without charge to each shareholder who so requests."

F. Severability. If any provision of this Article IX or any application of any such provision is determined to be invalid by any federal or state court having jurisdiction over the issues, the validity of the remaining provisions shall not be affected and other applications of such provision shall be affected only to the extent necessary to comply with the determination of such court.

X.
ESTABLISHMENT OF SERIES A CUMULATIVE PREFERRED STOCK

Pursuant to Article III hereof, the Board of Directors has established the following Series of Preferred Stock.

A. Terms of the Series A Cumulative Preferred Stock.

1. Designation and Number. A series of Preferred Stock, designated the "Series A Cumulative Preferred Stock", is hereby established. The number of authorized shares of Series A Cumulative Preferred Stock shall be 2,500,000.

2. Maturity. The Series A Cumulative Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption.

3. Rank. The Series A Cumulative Preferred Stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) prior or senior to the Common Stock issued by the Corporation; (b) prior or senior to all classes or series of Preferred Stock issued by the Corporation, the terms of which specifically provide that such shares rank junior to the Series A Cumulative Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Corporation, (c) on a parity with all classes or series of shares of Preferred Stock issued by the Corporation, the terms of which specifically provide that such shares rank on a parity with the Series A Cumulative Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Corporation (the "Parity Shares") and (d) junior to all existing and future indebtedness of the Corporation.

4. Dividends.

(a) Holders of Series A Cumulative Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors of the Corporation, or a duly authorized committee thereof, and declared by the Corporation out of funds of the Corporation legally available for payment, preferential cumulative cash dividends at the rate of 8% per annum of the Liquidation Preference (as defined below) per share (equivalent to a fixed annual amount of $.80 per share). Such dividends shall be cumulative from the date of original issue and shall be payable in arrears on the last day of each month (or, if not a Business Day (as defined below), the next succeeding Business Day, each a "Dividend Payment Date") for the period ending on such Dividend Payment Date, commencing on the date of issue. "Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in the City of New York are authorized or required to close. The first dividend will be paid on ___________ with respect to the period beginning on the date of issue and ending on ___________. Any dividend payable on the Series A Cumulative Preferred Stock for any partial dividend period will be computed on the basis of twelve 30-day months and a 360-day year. Dividends will be payable in arrears to holders of record as they appear on the share records of the Corporation at the close of business on the applicable record date, which shall be the first day of the calendar month in which the Dividend Payment Date occurs or such other date designated by the Board of Directors of the Corporation for the payment of dividends that is not more than 30 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date").

(b) No dividends on Series A Cumulative Preferred Stock shall be authorized by the Board of Directors of the Corporation or declared or paid or set apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, prohibits such declaration, payment or setting apart for payment or provides that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series A Cumulative Preferred Stock will accrue whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such dividends, whether or not such dividends are declared and whether or not such

dividends are prohibited by agreement. Accrued but unpaid dividends on the Series A Cumulative Preferred Stock will accumulate and earn additional dividends at 8%, compounded monthly. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any other class or series of Preferred Stock ranking, as to dividends, on a parity with or junior to the Series A Cumulative Preferred Stock (other than a dividend payable in capital stock of the Corporation ranking junior to the Series A Cumulative Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series A Cumulative Preferred Stock for all past dividend periods and the then current dividend period. When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series A Cumulative Preferred Stock and the shares of any other class or series of Preferred Stock ranking on a parity as to dividends with the Series A Cumulative Preferred Stock, all dividends declared upon the Series A Cumulative Preferred Stock and any other class or series of Preferred Stock ranking on a parity as to dividends with the Series A Cumulative Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series A Cumulative Preferred Stock and such other class or series of Preferred Stock, shall in all cases bear to each other the same ratio that accrued dividends per share on the Series A Cumulative Preferred Stock and such other class or series of Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) bear to each other.

(d) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series A Cumulative Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than a dividend payable in capital stock of the Corporation ranking junior to the Series A Cumulative Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the Common Stock, or any other class or series of capital stock of the Corporation ranking junior to or on a parity with the Series A Cumulative Preferred Stock as to dividends or upon liquidation, nor shall the Common Stock, or any other class or series of capital stock of the Corporation ranking junior to or on a parity with the Series A Cumulative Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by conversion into or exchange for any other class or series of capital stock of the Corporation ranking junior to the Series A Cumulative Preferred Stock as to dividends and upon liquidation or redemption for the purpose of preserving the Corporation's qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended (the "Code")). Holders of Series A Cumulative Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends on the Series A Cumulative Preferred Stock as provided above. Any dividend payment made on the Series A Cumulative Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable.

(e) If, for any taxable year, the Corporation elects to designate as "capital gain dividends" (as defined in Section 857 of the Code) any portion (the "Capital Gains Amount") of the dividends (as determined for federal income tax purposes) paid or made available for the year to holders of all classes of shares (the "Total Dividends"), then the portion of the Capital Gains Amount that shall be allocable to the holders of Series A Cumulative Preferred Stock shall be the amount that the total dividends (as determined for federal income tax purposes) paid or made available to the holders of the Series A Cumulative Preferred Stock for the year bears to the Total Dividends. The Corporation may elect to retain and pay income tax on its net long-term capital gains. In such a case, the holders of Series A Cumulative Preferred Stock would include in income their appropriate share of the Corporation's undistributed long-term capital gains, as designated by the Corporation.

5. Liquidation Preference.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of the Series A Cumulative Preferred Stock are entitled to be paid out of the assets of the Corporation legally available for distribution to its shareholders a liquidation preference of

$10.00 per share (the "Liquidation Preference") in cash or property at its fair market value as determined by the Board of Directors of the Corporation, plus an amount equal to any accrued and unpaid dividends to the date of payment, but without interest, before any distribution of assets is made to holders of the Corporation's Common Stock or any other class or series of capital stock of the Corporation that ranks junior to the Series A Cumulative Preferred Stock as to liquidation rights. The Corporation will promptly provide to the holders of the Series A Cumulative Preferred Stock written notice of any event triggering the right to receive such Liquidation Preference. After payment of the full amount of the Liquidation Preference, plus any accrued and unpaid dividends to which they are entitled, the holders of the Series A Cumulative Preferred Stock will have no right or claim to any of the remaining assets of the Corporation. The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation, trust or entity with or into the Corporation, the sale, lease or conveyance of all or substantially all of the property or business of the Corporation or a statutory share exchange, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation, unless a liquidation, dissolution or winding up of the Corporation is effected in connection with, or as a step in a series of transactions by which, a consolidation or merger of the Corporation is effected.

In determining whether a distribution (other than upon voluntary or involuntary liquidation) by dividend, redemption or other acquisition of shares of capital stock of the Corporation or otherwise is permitted under Maryland law, no effect shall be given to amounts that would be needed, if the Corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon distribution of holders of shares of capital stock of the Corporation whose preferential rights upon distribution are superior to those receiving the distribution.

(b) If upon any liquidation, dissolution or winding up of the Corporation, the assets of the Corporation, or proceeds thereof, distributable among the holders of Series A Cumulative Preferred Stock shall be insufficient to pay in full the above described preferential amount and liquidating payments on any other class or series of Parity Shares, then such assets, or the proceeds thereof, shall be distributed among the holders of Series A Cumulative Preferred Stock and any such other Parity Shares ratably in the same proportion as the respective amounts that would be payable on such Series A Cumulative Preferred Stock and any such other Parity Shares if all amounts payable thereon were paid in full.

(c) Upon any liquidation, dissolution or winding up of the Corporation, after payment shall have been made in full to the holders of Series A Cumulative Preferred Stock and any Parity Shares, the holders of Common Stock shall be entitled to receive any and all assets remaining to be paid or distributed, and the holders of the Series A Cumulative Preferred Stock and any Parity Shares shall not be entitled to share therein.

6. Redemption.

(a) The Corporation may, at its option, upon not less than 30 nor more than 60 days' written notice, redeem the Series A Cumulative Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price equal to the Liquidation Preference per share, plus all accrued and unpaid dividends thereon to the date fixed for redemption (the "Redemption Date"), without interest. No Series A Cumulative Preferred Stock may be redeemed except with assets legally available for the payment of the redemption price.

Holders of Series A Cumulative Preferred Stock to be redeemed shall surrender such Series A Cumulative Preferred Stock at the place designated in such notice and shall be entitled to the redemption price and any accrued and unpaid dividends payable upon such redemption following such surrender. If notice of redemption of any of the Series A Cumulative Preferred Stock has been given and if the funds necessary for such redemption have been set aside, separate and apart from other funds, by the Corporation in trust for the pro rata benefit of the holders of any Series A Cumulative Preferred Stock so called for redemption, then from and after the Redemption Date dividends will cease to accrue on such Series A Cumulative Preferred Stock, such Series A Cumulative Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. If less than all of the outstanding Series A Cumulative Preferred Stock is to be redeemed,

the Series A Cumulative Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Corporation.

(b) Unless full cumulative dividends on all Series A Cumulative Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no Series A Cumulative Preferred Stock shall be redeemed unless all outstanding Series A Cumulative Preferred Stock is simultaneously redeemed and the Corporation shall not purchase or otherwise acquire, directly or indirectly, any Series A Cumulative Preferred Stock (except by exchange for any other class or series of capital stock of the Corporation ranking junior to the Series A Cumulative Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Corporation of any Series A Cumulative Preferred Stock in accordance with Article IX hereof, or the purchase or acquisition of Series A Cumulative Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Series A Cumulative Preferred Stock. So long as no dividends are in arrears, the Corporation shall be entitled at any time and from time to time to repurchase any Series A Cumulative Preferred Stock in open-market transactions duly authorized by the Board of Directors of the Corporation and effected in compliance with applicable laws.

(c) Notice of redemption of the Series A Cumulative Preferred Stock shall be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the Redemption Date. A similar notice shall be mailed by the Corporation by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the Redemption Date, addressed to each holder of record of the Series A Cumulative Preferred Stock to be redeemed at such holder's address as the same appears on the share records of the Corporation. No failure to give such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any Series A Cumulative Preferred Stock except as to the holder to whom notice was defective or not given. Each notice shall state: (i) the Redemption Date; (ii) the redemption price; (iii) the number of shares of Series A Cumulative Preferred Stock to be redeemed; and (iv) the place or places where the Series A Cumulative Preferred Stock is to be surrendered for payment of the redemption price.

(d) Immediately prior to any redemption of Series A Cumulative Preferred Stock, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the Redemption Date, unless a Redemption Date falls after a Dividend Record Date and prior to the corresponding Dividend Payment Date, in which case each holder of Series A Cumulative Preferred Stock at the close of business on such Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares before such Dividend Payment Date.

(e) The Series A Cumulative Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption provisions, except as provided under Article IX hereof.

(f) Subject to applicable law and the limitation on purchases when dividends on the Series A Cumulative Preferred Stock are in arrears, the Corporation may, at any time and from time to time, purchase any Series A Cumulative Preferred Stock in the open market, by tender or by private agreement.

(g) All Series A Cumulative Preferred Stock redeemed, purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and reclassified as authorized but unissued Preferred Stock, without designation as to class or series, and may thereafter be reissued as any class or series of Preferred Stock in accordance with the applicable provisions of these Articles of Incorporation.

7. Voting Rights.

(a) Holders of the Series A Cumulative Preferred Stock will not have any voting rights, except as set forth below.

(b) Whenever dividends on any Series A Cumulative Preferred Stock shall be in arrears for six consecutive months or nine months, whether or not consecutive, in any twelve month period (a "Preferred Dividend Default"), the number of directors then constituting the Board of Directors of the Corporation shall increase by two (if not already increased by reason of a similar arrearage with respect to any Parity Preferred (as hereinafter defined)). The holders of such Series A Cumulative Preferred Stock (voting separately as a class with all other classes or series of Preferred Stock ranking on a parity with the Series A Cumulative Preferred Stock as to dividends or upon liquidation and upon which like voting rights have been conferred and are exercisable ("Parity Preferred")) will be entitled to vote separately as a class, in order to fill the vacancies thereby created, for the election of a total of two additional directors of the Corporation (the "Preferred Stock Directors") at a special meeting called by the holders of record of at least 20% of the Series A Cumulative Preferred Stock or the holders of record of at least 20% of any series of Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the shareholders) or at the next annual meeting of shareholders, and at each subsequent annual meeting at which a Preferred Stock Director is to be elected until up to twelve months after all dividends accumulated on such Series A Cumulative Preferred Stock and Parity Preferred for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In the event the directors of the Corporation are divided into classes, each such vacancy shall be apportioned among the classes of directors to prevent stacking in any one class and to ensure that the number of directors in each of the classes of directors are as equal as possible. Within twelve months after all accumulated dividends and the dividend for the then current dividend period on the Series A Cumulative Preferred Stock shall have been paid in full or declared and set aside for payment in full, the holders thereof shall be divested of the foregoing voting rights (subject to revesting in the event of each and every Preferred Dividend Default) and, if all accumulated dividends and the dividend for the then current dividend period have been paid in full or set aside for payment in full on the Series A Cumulative Preferred Stock and all series of Parity Preferred upon which like voting rights have been conferred and are exercisable, the term of office of each Preferred Stock Director so elected shall terminate within twelve months thereafter and the number of directors then constituting the Board of Directors of the Corporation shall decrease accordingly. Any Preferred Stock Director may be removed at any time with or without cause by, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding Series A Cumulative Preferred Stock when they have the voting rights described above (voting separately as a class with all series of Parity Preferred upon which like voting rights have been conferred and are exercisable). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series A Cumulative Preferred Stock when they have the voting rights described above (voting separately as a class with all series of Parity Preferred upon which like voting rights have been conferred and are exercisable). The Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(c) So long as any shares of Series A Cumulative Preferred Stock remain outstanding, the Corporation will not, without the affirmative vote or consent of the holders of Series A Cumulative Preferred Stock entitled to cast a majority of the votes entitled to be cast by the holders of the Series A Cumulative Preferred Stock, given in person or by proxy, either in writing or at a meeting (voting separately as a class):

(i) amend, alter or repeal the provisions of these Articles of Incorporation, whether by merger, consolidation or otherwise (an "Event"), so as to materially and adversely affect any right, preference, privilege or voting power of the Series A Cumulative Preferred Stock or the holders thereof; or

(ii) authorize, create or issue, or increase the authorized or issued amount of, any class or series of capital stock or rights to subscribe to or acquire any class or series of capital stock or any class or series of capital stock convertible into any class or series of capital stock, in each case ranking senior to the Series A Cumulative Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, or reclassify any shares of capital stock into any such shares;

provided, however, that with respect to the occurrence of any Event set forth above, so long as the Series A Cumulative Preferred Stock (or any equivalent class or series of stock or shares issued by the surviving corporation, trust or other entity in any merger or consolidation to which the Corporation became a party) remains outstanding with the terms thereof materially unchanged, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series A Cumulative Preferred Stock; and provided, further, that (i) any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other class or series of Preferred Stock, (ii) any increase in the amount of the authorized shares of such series, in each case ranking on a parity with or junior to the Series A Cumulative Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or (iii) any merger or consolidation in which the Corporation is not the surviving entity if, as a result of the merger or consolidation, the holders of Series A Cumulative Preferred Stock receive cash in the amount of the Liquidation Preference in exchange for each of their shares of Series A Cumulative Preferred Stock, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(d) With respect to the exercise of the above described voting rights, each share of Series A Cumulative Preferred Stock shall have one vote per share, except that when any other class or series of capital stock shall have the right to vote with the Series A Cumulative Preferred Stock as a single class, then the Series A Cumulative Preferred Stock and such other class or series of capital stock shall each have one vote per $10.00 of liquidation preference.

(e) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding Series A Cumulative Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

(f) Except as expressly stated in this Article X, the Series A Cumulative Preferred Stock shall not have any relative, participating, optional or other special voting rights and powers, and the consent of the holders thereof shall not be required for the taking of any corporate action, including but not limited to, any merger or consolidation involving the Corporation or a sale of all or substantially all of the assets of the Corporation, irrespective of the effect that such merger, consolidation or sale may have upon the rights, preferences or voting power of the holders of the Series A Cumulative Preferred Stock.

8. Articles of Incorporation and Bylaws. The rights of all holders of the Series A Cumulative Preferred Stock and the terms of the Series A Cumulative Preferred Stock are subject to the provisions of these Articles of Incorporation and the Bylaws of the Corporation, including, without limitation, the restrictions on transfer and ownership contained in Article IX of these Articles of Incorporation.

B. Exclusion of Other Rights.

Except as may otherwise be required by law, the Series A Cumulative Preferred Stock shall not have any voting powers, preferences or relative, participating, optional or other special rights, other than those specifically set forth in Article X of these Articles of Incorporation (as such article may be amended from time to time) and in the other articles of these Articles of Incorporation. The Series A Cumulative Preferred Stock shall have no preemptive or subscription rights.

C. Headings of Subdivisions.

The headings of the various subdivisions hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

D. Severability of Provisions.

If any voting powers, preferences or relative, participating, optional and other special rights of the Series A Cumulative Preferred Stock or qualifications, limitations or restrictions thereof set forth in Article X of these Articles of Incorporation (as such article may be amended from time to time) is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other voting powers, preferences and relative, participating, optional and other special rights of Series A Cumulative Preferred Stock and qualifications, limitations and restrictions thereof set forth in Article X of these Articles of Incorporation (as so amended) which can be given effect without the invalid, unlawful or unenforceable voting powers, preferences or relative, participating, optional or other special rights of Series A Cumulative Preferred Stock or qualifications, limitations and restrictions thereof shall be given such effect. None of the voting powers, preferences or relative participating, optional or other special rights of the Series A Cumulative Preferred Stock or qualifications, limitations or restrictions thereof herein set forth shall be deemed dependent upon any other such voting powers, preferences or relative, participating, optional or other special right of Series A Cumulative Preferred Stock or qualifications, limitations or restrictions thereof unless so expressed herein.

XI.
ESTABLISHMENT OF SERIES B CUMULATIVE PREFERRED STOCK

Pursuant to Article III hereof, the Board of Directors has established the following Series of Preferred Stock.

A. Terms of the Series B Cumulative Preferred Stock.

1. Designation and Number. A series of Preferred Stock, designated the "Series B Cumulative Preferred Stock", is hereby established. The number of authorized shares of Series B Cumulative Preferred Stock shall be 800,000.

2. Maturity. The Series B Cumulative Preferred Stock has no stated maturity and will not be subject to any sinking fund or, except in the event of a Change of Control (as defined below), mandatory redemption.

3. Rank. The Series B Cumulative Preferred Stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) prior or senior to the Common Stock issued by the Corporation; (b) prior or senior to all classes or series of Preferred Stock issued by the Corporation, the terms of which specifically provide that such shares rank junior to the Series B Cumulative Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Corporation, (c) on a parity with the Series A Cumulative Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Corporation and with all classes or series of shares of Preferred Stock issued by the Corporation, the terms of which specifically provide that such shares rank on a parity with the Series B Cumulative Preferred Stock (the "Parity Shares") and (d) junior to all existing and future indebtedness of the Corporation.

4. Dividends.

(a) Holders of Series B Cumulative Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors of the Corporation, or a duly authorized committee thereof, and declared by the Corporation out of funds of the Corporation legally available for payment, preferential cumulative cash dividends at the rate of 10.0% per annum of the Liquidation Preference (as defined below) per share (equivalent to a fixed annual amount of $25.00 per share). Such dividends shall be cumulative

from the date of original issue and shall be payable quarterly in arrears on March 31, June 30, September 30 and December 31 (or, if not a Business Day (as defined below), the next succeeding Business Day, each a "Dividend Payment Date") for the period ending on such Dividend Payment Date, commencing on the date of issue. "Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in the City of New York are authorized or required to close. The first dividend on Series B Cumulative Preferred Stock will be paid on __________ with respect to the period beginning on the date of issue and ending on __________ and will be less than a full quarter payment. Any dividend payable on the Series B Cumulative Preferred Stock for any partial dividend period will be computed on the basis of twelve 30-day months and a 360-day year. Dividends will be payable in arrears to holders of record as they appear on the share records of the Corporation at the close of business on the applicable record date, which shall be the fifteenth day of March, June, September or December, as the case may be, immediately preceding the applicable Dividend Payment Date or such other date designated by the Board of Directors of the Corporation for the payment of dividends that is not more than 30 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date").

(b) No dividends on Series B Cumulative Preferred Stock shall be authorized by the Board of Directors of the Corporation or declared or paid or set apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, prohibits such declaration, payment or setting apart for payment or provides that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series B Cumulative Preferred Stock will accrue whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such dividends, whether or not such dividends are declared and whether or not such dividends are prohibited by agreement. Accrued but unpaid dividends on the Series B Cumulative Preferred Stock will accumulate but will not bear interest. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any other class or series of Preferred Stock ranking, as to dividends, on a parity with or junior to the Series B Cumulative Preferred Stock (other than a dividend payable in capital stock of the Corporation ranking junior to the Series B Cumulative Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series B Cumulative Preferred Stock for all past dividend periods and the then current dividend period. When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series B Cumulative Preferred Stock and the shares of any other class or series of Preferred Stock ranking on a parity as to dividends with the Series B Cumulative Preferred Stock, all dividends declared upon the Series B Cumulative Preferred Stock and any other class or series of Preferred Stock ranking on a parity as to dividends with the Series B Cumulative Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series B Cumulative Preferred Stock and such other class or series of Preferred Stock, shall in all cases bear to each other the same ratio that accrued dividends per share on the Series B Cumulative Preferred Stock and such other class or series of Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) bear to each other.

(d) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series B Cumulative Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than a dividend payable in capital stock of the Corporation ranking junior to the Series B Cumulative Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the Common Stock, or any other class or series of capital stock of the Corporation ranking junior to or on a parity with the Series B Cumulative Preferred Stock as to dividends or upon liquidation, nor shall the Common Stock, or any other class or series of capital stock of the Corporation ranking junior to or on a parity with the Series B Cumulative Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by

conversion into or exchange for any other class or series of capital stock of the Corporation ranking junior to the Series B Cumulative Preferred Stock as to dividends and upon liquidation or redemption for the purpose of preserving the Corporation's qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended (the "Code") or complying with the provisions of Article VIII hereof). Holders of Series B Cumulative Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends on the Series B Cumulative Preferred Stock as provided above. Any dividend payment made on the Series B Cumulative Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable. Accrued but unpaid dividends on the Series B Cumulative Preferred Stock will not bear interest.

5. Liquidation Preference.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of the Series B Cumulative Preferred Stock are entitled to be paid out of the assets of the Corporation legally available for distribution to its shareholders a liquidation preference of $25.00 per share (the "Liquidation Preference") in cash, plus an amount equal to any accrued and unpaid dividends to the date of payment, but without interest, before any distribution of assets is made to holders of the Corporation's Common Stock or any other class or series of capital stock of the Corporation that ranks junior to the Series B Cumulative Preferred Stock as to liquidation rights. The Corporation will promptly provide to the holders of the Series B Cumulative Preferred Stock written notice of any event triggering the right to receive such Liquidation Preference. The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation, trust or entity with or into the Corporation, the sale, lease or conveyance of all or substantially all of the property or business of the Corporation or a statutory share exchange, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

In determining whether a distribution (other than upon voluntary or involuntary liquidation) by dividend, redemption or other acquisition of shares of capital stock of the Corporation or otherwise is permitted under Maryland law, no effect shall be given to amounts that would be needed, if the Corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon distribution of holders of shares of capital stock of the Corporation whose preferential rights upon distribution are superior to those receiving the distribution.

(b) If upon any liquidation, dissolution or winding up of the Corporation, the available assets of the Corporation, or proceeds thereof, distributable among the holders of Series B Cumulative Preferred Stock shall be insufficient to pay in full the above described preferential amount and liquidating payments on any other class or series of Parity Shares, then such assets, or the proceeds thereof, shall be distributed among the holders of Series B Cumulative Preferred Stock and any such other Parity Shares ratably in the same proportion as the respective amounts that would be payable on such Series B Cumulative Preferred Stock and any such other Parity Shares if all amounts payable thereon were paid in full.

(c) Upon any liquidation, dissolution or winding up of the Corporation, after payment shall have been made in full to the holders of Series B Cumulative Preferred Stock and any Parity Shares, the holders of the Series B Cumulative Preferred Stock shall have no right or claim to any of the remaining assets of the Corporation.

6. Redemption.

(a) The Series B Cumulative Preferred Stock is not redeemable at the Corporation's option prior to June 3, 2013 except upon a Change of Control or pursuant to the provisions of Article IX hereof. The Corporation, upon not less than 30 nor more than 60 days' written notice, may at its option on or after June 3, 2013 redeem the Series B Cumulative Preferred Stock, in whole or in part, at any time or from time to time, and shall upon a Change of Control redeem each outstanding share of Series B Cumulative Preferred Stock, in all cases for cash at a redemption price equal to the Liquidation Preference per share, plus all accrued and unpaid dividends thereon to the date of redemption, without interest.

If notice of redemption of any of the Series B Cumulative Preferred Stock has been given and if the funds necessary for such redemption have been set aside, separate and apart from other funds, by the Corporation in trust for the pro rata benefit of the holders of any Series B Cumulative Preferred Stock so called for redemption, then from and after the date of redemption dividends will cease to accrue on such Series B Cumulative Preferred Stock, such Series B Cumulative Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. If less than all of the outstanding Series B Cumulative Preferred Stock is to be redeemed, the Series B Cumulative Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Corporation.

(b) Unless full cumulative dividends on all Series B Cumulative Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no Series B Cumulative Preferred Stock shall be redeemed unless all outstanding Series B Cumulative Preferred Stock is simultaneously redeemed and the Corporation shall not purchase or otherwise acquire, directly or indirectly, any Series B Cumulative Preferred Stock (except by exchange for any other class or series of capital stock of the Corporation ranking junior to the Series B Cumulative Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Corporation of any Series B Cumulative Preferred Stock in accordance with Article IX hereof, or the purchase or acquisition of Series B Cumulative Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Series B Cumulative Preferred Stock. Subject to applicable law and the limitation on purchases when dividends on the Series B Cumulative Preferred Stock are in arrears, the Corporation shall be entitled at any time and from time to time to repurchase any Series B Cumulative Preferred Stock by tender, by private agreement and in open-market transactions duly authorized by the Board of Directors of the Corporation.

(c) Notice of redemption of the Series B Cumulative Preferred Stock shall be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the date of redemption. A similar notice shall be mailed by the Corporation by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the date of redemption, addressed to each holder of record of the Series B Cumulative Preferred Stock to be redeemed at such holder’s address as the same appears on the share records of the Corporation. No failure to give such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any Series B Cumulative Preferred Stock except as to the holder to whom notice was defective or not given. Each notice shall state: (i) the date of redemption; (ii) the redemption price; (iii) the number of shares of Series B Cumulative Preferred Stock to be redeemed; (iv) the place or places where the Series B Cumulative Preferred Stock is to be surrendered for payment of the redemption price; and (v) dividends will cease to accrue on the redemption date.

(d) Immediately prior to any redemption of Series B Cumulative Preferred Stock, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the date of redemption, unless a date of redemption falls after a Dividend Record Date and prior to the corresponding Dividend Payment Date, in which case each holder of Series B Cumulative Preferred Stock at the close of business on such Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares before such Dividend Payment Date.

(e) All Series B Cumulative Preferred Stock redeemed, purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and reclassified as authorized but unissued Preferred Stock, without designation as to class or series, and may thereafter be reissued as any class or series of Preferred Stock in accordance with the applicable provisions of these Articles of Incorporation.

(f) A “Change of Control” shall be deemed to have occurred at such time as (i) a “person” or “group” (within the meaning of Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) becomes the ultimate “beneficial owner” (as defined in Rules 13d-3 and

13d-5 under the Exchange Act, except that a person or group shall be deemed to have beneficial ownership of all shares of Voting Stock that such person or group has the right to acquire regardless of when such right is first exercisable), directly or indirectly, of Voting Stock representing more than 35% of the total voting power of the total Voting Stock of the Corporation on a fully diluted basis; (ii) the date the Corporation sells, transfers or otherwise disposes of all or substantially all of the assets of the Corporation; and (iii) the date of the consummation of a merger or share exchange of the Corporation with another corporation where the shareholders of the Corporation immediately prior to the merger or share exchange would not beneficially own immediately after the merger or share exchange, shares entitling such shareholders to 50% or more of all votes (without consideration of the rights of any class of stock to elect directors by a separate group vote) to which all shareholders of the corporation issuing cash or securities in the merger or share exchange would be entitled in the election of directors, or where members of the Board of Directors of the Corporation immediately prior to the merger or share exchange would not immediately after the merger or share exchange constitute a majority of the board of directors of the corporation issuing cash or securities in the merger or share exchange. "Voting Stock" shall mean capital stock of any class or kind having the power to vote generally for the election of directors of the Corporation.

7. Voting Rights.

(a) Holders of the Series B Cumulative Preferred Stock will not have any voting rights, except as set forth below.

(b) Whenever dividends on any Series B Cumulative Preferred Stock shall be in arrears for six or more quarterly periods, whether or not consecutive (a "Preferred Dividend Default"), the number of directors then constituting the Board of Directors of the Corporation shall increase by two (if not already increased by reason of a similar arrearage with respect to any Parity Preferred (as hereinafter defined)). The holders of such Series B Cumulative Preferred Stock (voting separately as a class with all other classes or series of Preferred Stock ranking on a parity with the Series B Cumulative Preferred Stock as to dividends or upon liquidation and upon which like voting rights have been conferred and are exercisable ("Parity Preferred")) will be entitled to vote separately as a class, in order to fill the vacancies thereby created, for the election of a total of two additional directors of the Corporation (the "Preferred Stock Directors") at a special meeting called by the holders of record of at least 20% of the Series B Cumulative Preferred Stock or the holders of record of at least 20% of any series of Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the shareholders) or at the next annual meeting of shareholders, and at each subsequent annual meeting at which a Preferred Stock Director is to be elected until up to twelve months after all dividends accumulated on such Series B Cumulative Preferred Stock and Parity Preferred for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In the event the directors of the Corporation are divided into classes, each such vacancy shall be apportioned among the classes of directors to prevent stacking in any one class and to ensure that the number of directors in each of the classes of directors are as equal as possible. Within twelve months after all accumulated dividends and the dividend for the then current dividend period on the Series B Cumulative Preferred Stock shall have been paid in full or declared and set aside for payment in full, the holders thereof shall be divested of the foregoing voting rights (subject to revesting in the event of each and every Preferred Dividend Default) and, if all accumulated dividends and the dividend for the then current dividend period have been paid in full or set aside for payment in full on the Series B Cumulative Preferred Stock and all series of Parity Preferred upon which like voting rights have been conferred and are exercisable, the term of office of each Preferred Stock Director so elected shall terminate (within twelve months thereafter) and the number of directors then constituting the Board of Directors of the Corporation shall decrease accordingly. Any Preferred Stock Director may be removed at any time with or without cause by, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding Series B Cumulative Preferred Stock when they have the voting rights described above (voting separately as a class with all series of Parity Preferred upon which like voting rights have been conferred and are exercisable). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series B Cumulative Preferred Stock when they have the voting rights described above (voting

separately as a class with all series of Parity Preferred upon which like voting rights have been conferred and are exercisable). The Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(c) So long as any shares of Series B Cumulative Preferred Stock remain outstanding, the Corporation will not, without the affirmative vote or consent of the holders of Series B Cumulative Preferred Stock entitled to cast at least two-thirds of the votes entitled to be cast by the holders of the Series B Cumulative Preferred Stock, given in person or by proxy, either in writing or at a meeting (voting separately as a class):

(i) amend, alter, repeal or make other changes to the provisions of these Articles of Incorporation setting forth the terms of the Series B Cumulative Preferred Stock, whether by merger, consolidation or otherwise (an "Event"), so as to materially and adversely affect any right, preference, privilege or voting power of the Series B Cumulative Preferred Stock or the holders thereof; or

(ii) authorize, create or issue, or increase the authorized or issued amount of, any class or series of capital stock or rights to subscribe to or acquire any class or series of capital stock or any class or series of capital stock convertible into any class or series of capital stock, in each case ranking senior to the Series B Cumulative Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or otherwise, or reclassify any shares of capital stock into any such shares;

provided, however, that with respect to the occurrence of any Event set forth above, so long as the Series B Cumulative Preferred Stock (or any equivalent class or series of stock or shares issued by the surviving corporation, trust or other entity in any merger or consolidation to which the Corporation became a party) remains outstanding with the terms thereof materially unchanged, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series B Cumulative Preferred Stock; and provided, further, that (i) any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other class or series of Preferred Stock, (ii) any increase in the amount of the authorized shares of such series, in each case ranking on a parity with or junior to the Series B Cumulative Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or (iii) any merger or consolidation in which the Corporation is not the surviving entity if, as a result of the merger or consolidation, the holders of Series B Cumulative Preferred Stock receive cash in the amount of the Liquidation Preference in exchange for each of their shares of Series B Cumulative Preferred Stock, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(d) With respect to the exercise of the above described voting rights, each share of Series B Cumulative Preferred Stock shall have one vote per share, except that when any other class or series of capital stock shall have the right to vote with the Series B Cumulative Preferred Stock as a single class, then the Series B Cumulative Preferred Stock and such other class or series of capital stock shall each have one vote per $10.00 of liquidation preference.

(e) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding Series B Cumulative Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

8. Articles of Incorporation and Bylaws.

The rights of all holders of the Series B Cumulative Preferred Stock and the terms of the Series B Cumulative Preferred Stock are subject to the provisions of these Articles of Incorporation and the Bylaws of the Corporation, including, without limitation, the restrictions on transfer and ownership contained in Article IX of these Articles of Incorporation.

B. Exclusion of Other Rights.

Except as may otherwise be required by applicable law, the Series B Cumulative Preferred Stock shall not have any voting powers, preferences or relative, participating, optional or other special rights, other than those specifically set forth in Article XI of these Articles of Incorporation (as such article may be amended from time to time) and in the other articles of these Articles of Incorporation. The Series B Cumulative Preferred Stock shall have no preemptive or subscription rights.

C. Headings of Subdivisions.

The headings of the various subdivisions hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

D. Severability of Provisions.

If any voting powers, preferences or relative, participating, optional and other special rights of the Series B Cumulative Preferred Stock or qualifications, limitations or restrictions thereof set forth in Article XI of these Articles of Incorporation (as such article may be amended from time to time) is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other voting powers, preferences and relative, participating, optional and other special rights of Series B Cumulative Preferred Stock and qualifications, limitations and restrictions thereof set forth in Article XI of these Articles of Incorporation (as so amended) which can be given effect without the invalid, unlawful or unenforceable voting powers, preferences or relative, participating, optional or other special rights of Series B Cumulative Preferred Stock or qualifications, limitations and restrictions thereof shall be given such effect. None of the voting powers, preferences or relative participating, optional or other special rights of the Series B Cumulative Preferred Stock or qualifications, limitations or restrictions thereof herein set forth shall be deemed dependent upon any other such voting powers, preferences or relative, participating, optional or other special right of Series B Cumulative Preferred Stock or qualifications, limitations or restrictions thereof unless so expressed herein.

XII.
ESTABLISHMENT OF SERIES C CUMULATIVE PREFERRED STOCK

Pursuant to Article III hereof, the Board of Directors has established the following Series of Preferred Stock.

A. Terms of the series c cumulative convertible preferred stock.

1. Designation and Number. A series of Preferred Stock, designated the “Series C Cumulative Convertible Preferred Stock”, is hereby established (and are herein referred to as the “Series C Preferred Stock”). The number of authorized shares of Series C Preferred Stock shall be 3,000,000 (the “Preferred Shares”).

2. Maturity. The Series C Preferred Stock has no stated maturity and will not be subject to any sinking fund, mandatory redemption, except as described below, forced conversion.

3. Rank. The Series C Preferred Stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of Supertel Hospitality, Inc. (the “Corporation”), rank (a) prior or senior to the Common Stock issued by the Corporation; (b) prior or senior to all classes or series of Preferred Stock issued by the Corporation, the terms of which specifically provide that such shares rank junior to the Series C Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Corporation, (c) on a parity with the Series A Cumulative Preferred Stock and Series B Cumulative Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Corporation and with all classes or series of shares of Preferred Stock issued by the Corporation, the terms of which specifically provide that such shares rank on a parity with the Series C Preferred Stock (the “Parity Shares”) and (d) junior to all existing and future indebtedness of the Corporation.

4. Dividends.

(a) Holders of Series C Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors of the Corporation, or a duly authorized committee thereof, and declared by the Corporation out of funds of the Corporation legally available for payment, preferential cumulative cash dividends at the rate of 6.25% per annum of the face value per share (equivalent to a fixed annual amount of $0.625 per share). Such dividends shall be cumulative from the date of original issue and shall be payable quarterly in arrears on March 31, June 30, September 30 and December 31 (or, if not a Business Day (as defined below), the next succeeding Business Day, each a "Dividend Payment Date") for the period ending on such Dividend Payment Date, commencing on the date of issue. "Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in the City of New York are authorized or required to close. The first dividend on Series C Preferred Stock will be paid on ____________ with respect to the period beginning on the date of issue and ending on _____________ and will be less than a full quarter payment. Any dividend payable on the Series C Preferred Stock for any partial dividend period will be computed on the basis of twelve 30-day months and a 360-day year. Dividends will be payable in arrears to holders of record as they appear on the share records of the Corporation at the close of business on the applicable record date, which shall be the fifteenth day of March, June, September or December, as the case may be, immediately preceding the applicable Dividend Payment Date or such other date designated by the Board of Directors of the Corporation for the payment of dividends that is not more than 30 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date").

(b) No dividends on Series C Preferred Stock shall be authorized by the Board of Directors of the Corporation or declared or paid or set apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation relating to the Corporation's indebtedness prohibits such declaration, payment or setting apart for payment or provides that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series C Preferred Stock will accrue whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such dividends, whether or not such dividends are declared and whether or not such dividends are prohibited by agreement. Accrued but unpaid dividends on the Series C Preferred Stock will accumulate and will earn additional dividends at 6.25%, compounding quarterly. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any other class or series of Preferred Stock ranking, as to dividends, on a parity with or junior to the Series C Preferred Stock (other than a dividend payable in capital stock of the Corporation ranking junior to the Series C Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series C Preferred Stock for all past dividend periods and the then current dividend period. When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series C Preferred Stock and the shares of any other class or series of Preferred Stock ranking on a parity as to dividends with the Series C Preferred Stock, all dividends declared upon the Series C Preferred Stock and any other class or series of Preferred Stock ranking on a parity as to dividends with the Series C Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series C Preferred Stock and such other class or series of Preferred Stock, shall in all cases bear to each other the same ratio that accrued dividends per share on the Series C Preferred Stock and such other class or series of Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) bear to each other.

Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series C Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than a dividend payable in capital stock of the Corporation ranking junior to the Series C Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the Common Stock, or any

other class or series of capital stock of the Corporation ranking junior to or on a parity with the Series C Preferred Stock as to dividends or upon liquidation, nor shall the Common Stock, or any other class or series of capital stock of the Corporation ranking junior to or on a parity with the Series C Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by conversion into or exchange for any other class or series of capital stock of the Corporation ranking junior to the Series C Preferred Stock as to dividends and upon liquidation or redemption for the purpose of preserving the Corporation's qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended (the "Code") or complying with the provisions of Article VIII hereof). Holders of Series C Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends on the Series C Preferred Stock as provided above. Any dividend payment made on the Series C Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable. As provided herein, accrued but unpaid dividends on the Series C Preferred Stock will accumulate and will earn additional dividends at 6.25%, compounding quarterly.

5. Liquidation Preference.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of the Series C Preferred Stock are entitled to be paid out of the assets of the Corporation legally available for distribution to its shareholders a liquidation preference of $10.00 per share (the "Liquidation Preference") in cash, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of the Corporation's Common Stock or any other class or series of capital stock of the Corporation that ranks junior to the Series C Preferred Stock as to liquidation rights. As provided herein, accrued but unpaid dividends on the Series C Preferred Stock will accumulate and will earn additional dividends at 6.25%, compounding quarterly. The Corporation will promptly provide to the holders of the Series C Preferred Stock written notice of any event triggering the right to receive such Liquidation Preference. The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation, trust or entity with or into the Corporation, the sale, lease or conveyance of all or substantially all of the property or business of the Corporation or a statutory share exchange, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

In determining whether a distribution (other than upon voluntary or involuntary liquidation) by dividend, redemption or other acquisition of shares of capital stock of the Corporation or otherwise is permitted under Maryland law, no effect shall be given to amounts that would be needed, if the Corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon distribution of holders of shares of capital stock of the Corporation whose preferential rights upon distribution are superior to those receiving the distribution.

(b) If upon any liquidation, dissolution or winding up of the Corporation, the available assets of the Corporation, or proceeds thereof, distributable among the holders of Series C Preferred Stock shall be insufficient to pay in full the above described preferential amount and liquidating payments on any other class or series of Parity Shares, then such assets, or the proceeds thereof, shall be distributed among the holders of Series C Preferred Stock and any such other Parity Shares ratably in the same proportion as the respective amounts that would be payable on such Series C Preferred Stock and any such other Parity Shares if all amounts payable thereon were paid in full.

(c) Upon any liquidation, dissolution or winding up of the Corporation, after payment shall have been made in full to the holders of Series C Preferred Stock and any Parity Shares, the holders of the Series C Preferred Stock shall have no right or claim to any of the remaining assets of the Corporation.

6. Redemption.

(a) The Series C Preferred Stock is not redeemable at the Corporation's option prior to January 31, 2017. After January 31, 2017, the Series C Preferred Stock is redeemable at the Corporation's

option if the VWAP (as defined below) of the Common Stock of the Corporation is less than the Conversion Price for any 30 Day Period (as defined below) after January 31, 2017 (a "Redemption Event"). The Corporation, upon not less than 30 nor more than 60 days' written notice, may at its option at any time after a Redemption Event redeem the Series C Preferred Stock, in whole or in part, at any time or from time to time, redeem each outstanding share of Series C Preferred Stock, in all cases for cash at a redemption price equal to the Liquidation Preference per share, plus all accrued and unpaid dividends thereon to the date of redemption. As provided herein, accrued but unpaid dividends on the Series C Preferred Stock will accumulate and will earn additional dividends at 6.25%, compounding quarterly.

If notice of redemption of any of the Series C Preferred Stock has been given and if the funds necessary for such redemption have been set aside, separate and apart from other funds, by the Corporation in trust for the pro rata benefit of the holders of any Series C Preferred Stock so called for redemption, then from and after the date of redemption dividends will cease to accrue on such Series C Preferred Stock, such Series C Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. If less than all of the outstanding Series C Preferred Stock is to be redeemed, the Series C Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method reasonably determined by the Corporation.

(b) Unless full cumulative dividends on all Series C Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no Series C Preferred Stock shall be redeemed unless all outstanding Series C Preferred Stock is simultaneously redeemed and the Corporation shall not purchase or otherwise acquire, directly or indirectly, any Series C Preferred Stock (except by exchange for any other class or series of capital stock of the Corporation ranking junior to the Series C Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Corporation of any Series C Preferred Stock in accordance with Article IX hereof, or the purchase or acquisition of Series C Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Series C Preferred Stock. Subject to applicable law and the limitation on purchases when dividends on the Series C Preferred Stock are in arrears, the Corporation shall be entitled at any time and from time to time to repurchase any Series C Preferred Stock by tender, by private agreement and in open-market transactions duly authorized by the Board of Directors of the Corporation.

(c) Notice of redemption by the Corporation of the Series C Preferred Stock shall be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the date of redemption. A similar notice shall be mailed by the Corporation by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the date of redemption, addressed to each holder of record of the Series C Preferred Stock to be redeemed at such holder's address as the same appears on the share records of the Corporation. No failure to give such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any Series C Preferred Stock except as to the holder to whom notice was defective or not given. Each notice shall state: (i) the date of redemption; (ii) the redemption price; (iii) the number of shares of Series C Preferred Stock to be redeemed; (iv) the place or places where the Series C Preferred Stock is to be surrendered for payment of the redemption price; and (v) dividends will cease to accrue on the redemption date.

(d) Immediately prior to any redemption of Series C Preferred Stock, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the date of redemption, unless a date of redemption falls after a Dividend Record Date and prior to the corresponding Dividend Payment Date, in which case each holder of Series C Preferred Stock at the close of business on such Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares before such Dividend Payment Date.

(e) All Series C Preferred Stock redeemed, purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and reclassified as authorized but unissued Preferred

Stock, without designation as to class or series, and may thereafter be reissued as any class or series of Preferred Stock in accordance with the applicable provisions of these Articles of Incorporation.

(f) "30 Day Period" shall mean any 30 consecutive calendar days. "VWAP" means, for any 30 Day Period (i) the volume weighted average price of the Common Stock for such period on the Nasdaq Stock Market LLC, or if such securities are not listed or admitted for trading on the Nasdaq Stock Market LLC, on the principal national securities exchange on which such securities are listed or admitted as reported by Bloomberg L.P. (based on a trading Day from 9:30 a.m. (New York City time) to 4:00 p.m. (New York City time)), (ii) if not listed or admitted for trading on any national securities exchange, the volume weighted average price of the Common Stock for such period in the applicable securities market in which the securities are traded, or (iii) if the Common Stock is not then listed or quoted for trading on any securities market the average fair market value of a share of Common Stock for such period as determined by an independent appraiser selected in good faith by the Company, the fees and expenses of which shall be paid by the Company and which determination shall be final, conclusive and binding.

7. Voting Rights.

(a) Except as otherwise provided herein, the Holders of Series C Preferred Stock shall not have any voting rights. The Holders of Series C Preferred Stock shall be entitled to vote their Series C Preferred Stock as a single class with the holders of the Common Stock on all matters submitted to such holders for vote or consent. For each such vote or consent, the voting power of the Series C Preferred Stock shall be equal to the lesser of (i) .78625 vote per share of Series C Preferred Stock or (ii) an amount of votes per share of Series C Preferred Stock such that the vote of all shares of Series C Preferred Stock in the aggregate equal 34% of the combined voting power all of the Voting Stock entitled to vote or consent, minus an amount equal to the number of votes represented by the other shares of Voting Stock Beneficially Owned by Real Estate Strategies L.P., a Bermuda Limited Partnership ("RES" or the "Purchaser") and its Affiliates and Subsidiaries, as such terms are defined under certain Purchase Agreement dated as of November 16, 2011 by and among the Purchaser and the predecessor of the Corporation. The foregoing voting rights decline in proportion to the amount of Series C Preferred Stock converted to common shares. "Voting Stock" shall mean capital stock of any class or kind having the power to vote generally for the election of directors of the Corporation.

(b) So long as any shares of Series C Preferred Stock remain outstanding, the Corporation will not, without the affirmative vote or consent of the holders of Series C Preferred Stock be entitled to cast at least a majority of the votes entitled to be cast by the holders of the Series C Preferred Stock, given in person or by proxy, either in writing or at a meeting (voting separately as a class):

(i) amend, alter, repeal or make other changes to the provisions of these Articles of Incorporation setting forth the terms of the Series C Preferred Stock, whether by merger, consolidation or otherwise (an "Event"), so as to adversely affect any right, preference, privilege or voting power of the Series C Preferred Stock or the holders thereof; or

(ii) authorize, create or issue, or increase the authorized or issued amount of, any class or series of capital stock or rights to subscribe to or acquire any class or series of capital stock or any class or series of capital stock convertible into any class or series of capital stock, in each case ranking senior or pari passu to the Series C Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or otherwise, or reclassify any shares of capital stock into any such shares;

provided, however, that with respect to the occurrence of any Event, so long as the Series C Preferred Stock (or any equivalent class or series of stock or shares issued by the surviving corporation, trust or other entity in any merger or consolidation to which the Corporation became a party) remains outstanding with the terms thereof materially unchanged, the occurrence of any such Event shall not be deemed to adversely affect such rights, preferences, privileges or voting power of holders of the Series C Preferred Stock; and provided, further, that (i) any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other class or series of Preferred Stock, (ii) any increase in the amount of the authorized

shares of such series, in each case ranking on a parity with or junior to the Series C Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or (iii) any merger or consolidation in which the Corporation is not the surviving entity if, as a result of the merger or consolidation, the holders of Series C Preferred Stock receive cash in the amount of the Liquidation Preference plus accrued and unpaid dividends in exchange for each of their shares of Series C Preferred Stock, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

With respect solely to the exercise of the above described voting rights in this Section 7(b), each share of Series C Preferred Stock shall have one vote per share, except that when any other class or series of capital stock shall have the right to vote with the Series C Preferred Stock as a single class, then the Series C Preferred Stock and such other class or series of capital stock shall each have one vote per $10.00 of liquidation preference.

The foregoing voting provisions in this Section 7(b) will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding Series C Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

(c) So long as the Purchaser and/or its Affiliates has the right to designate two or more directors to the Board of Directors of the Corporation pursuant to the Directors Designation Agreement dated January 31, 2012, by and among the predecessor of the Corporation, the Purchaser and IRSA Inversiones y Representaciones Sociedad Anónima, an Argentine sociedad anónima ("IRSA"), the following matters shall require the approval of the Purchaser and/or IRSA:

(i) the merger, consolidation, liquidation or sale of substantially all of the assets of the Corporation;

(ii) the sale, issuance or potential issuance in an offering by the Corporation of Common Stock (or securities convertible into or exercisable Common Stock) equal to 20% or more of the Common Stock or 20% or more of the Voting Stock outstanding before the issuance; or

(iii) any transaction in which the Corporation is to be a participant and the amount involved exceeds $120,000 other than employment compensation and in which any of the Corporation's directors or executive officers or any member of their immediate family will have a material interest, exclusive of interests arising solely from the ownership of a class of equity securities of the Corporation and all holders of that class of equity securities receive the same benefit on a pro rata basis.

8. Conversion.

(a) Subject to the Beneficial Ownership Limitation (as set forth below) each share of Series C Preferred Stock shall be convertible, at any time and from time to time from and after the Date of Issuance at the option of the Holder thereof, into that number of shares of Common Stock determined by dividing the Liquidation Preference of such share of Series C Preferred Stock by the Conversion Price. Holders shall effect conversions by providing the Corporation with a conversion notice (a "Notice of Conversion"). Each Notice of Conversion shall specify the number of shares of Series C Preferred Stock to be converted, the number of shares of Series C Preferred Stock owned prior to the conversion at issue, the number of shares of Series C Preferred Stock owned subsequent to the conversion at issue and the date on which such conversion is to be effected, which date may not be prior to the date the applicable Holder delivers by facsimile such Notice of Conversion to the Corporation (such date, the "Conversion Date"). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be the date that such Notice of Conversion to the Corporation is deemed delivered hereunder. To effect conversions of shares of Series C Preferred Stock, a Holder shall surrender the certificate(s) representing the shares of Series C Preferred Stock to be converted to the Corporation together with the delivery of the Notice of Conversion,

unless such shares are held in uncertificated form. Shares of Series C Preferred Stock converted into Common Stock or redeemed in accordance with the terms hereof shall be canceled.

(b) The conversion price for the Series C Preferred Stock shall equal $1.00, subject to adjustment herein (the "Conversion Price").

(c) Promptly after each Conversion Date, the Corporation shall deliver, or cause to be delivered, to the converting Holder a certificate or certificates representing the number of shares of Common Stock being acquired upon the conversion of the Series C Preferred Stock.

(d) No fractional Common Stock shall be issued upon conversion of Series C Preferred Stock. All Common Stock (including fractions thereof) issuable upon conversion of Series C Preferred Stock shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the exercise would result in the issuance of any fractional share, the Company shall, in lieu of issuing any fractional shares, pay cash equal to the product of such fraction multiplied by the fair market value per share of Common Stock on the Conversion Date (as reported by the NASDAQ or any other national securities exchange on which the Common Stock are then listed for trading, or if none, the most recently reported "over the counter" trade price or if none, as determined in good faith by the Board of Directors of the Company).

(e) The Corporation covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock for the sole purpose of issuance upon conversion of the Series C Preferred, free from all liens and preemptive rights. The Corporation covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly authorized, validly issued, fully paid and nonassessable. The Corporation shall use its best efforts to list the Common Stock required to be delivered upon conversion of the Series C Preferred Stock, prior to such delivery, upon any national securities exchange upon which the Common Stock is listed at the time of such delivery.

(f) The issuance of certificates for shares of the Common Stock on conversion of the Series C Preferred Stock shall be made without charge to any Holder for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificates, provided that the Corporation shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holders of such shares of Preferred Stock and the Corporation shall not be required to issue or deliver such certificates unless or until the Person or Persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(g) The Corporation shall not effect any conversion of the Series C Preferred Stock, and a Holder shall not have the right to convert any portion of the Series C Preferred Stock, to the extent that, after giving effect to the conversion set forth on the applicable Notice of Conversion, such Holder (together with such Holder's Affiliates, and any Persons acting as a group together with such Holder or any of such Holder's Affiliates) would beneficially own Voting Stock in excess of the Beneficial Ownership Limitation. For purposes of this Section 8(g), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder (except that a person or group shall be deemed to have beneficial ownership of shares of Voting Stock that such person or group has the right to acquire regardless of when such right is first exercisable), it being acknowledged by such Holder that the Holder does not have the right to acquire Common Stock in excess of the Beneficial Ownership Limitation. To ensure compliance with this restriction, each Holder will be deemed to represent to the Corporation each time it delivers a Notice of Conversion that such Notice of Conversion has not violated the restrictions set forth in this paragraph. For purposes of this Section 8(g), a Holder may rely on the number of outstanding shares of Voting Stock as stated in the most recent of the following: (i) the Corporation's most recent periodic or annual report filed with the Commission, as the case may be, (ii) a more recent public announcement by the Corporation or (iii) a more recent written notice by the Corporation or the Transfer Agent setting forth the number of shares of Voting Stock outstanding. Upon the written or oral request of a Holder, the Corporation shall promptly confirm orally and in writing to such Holder the number of votes represented by the Voting Stock then outstanding. In any case, the voting

power of outstanding shares of Voting Stock shall be determined after giving effect to the conversion or exercise of securities of the Corporation, including the Preferred Stock, by such Holder or its Affiliates since the date as of which such number of outstanding shares of Voting Stock was reported. The "Beneficial Ownership Limitation" shall be 34.0% of the total number of votes represented by the Voting Stock outstanding immediately after giving effect to the issuance of shares of Common Stock otherwise issuable upon conversion of Preferred Stock pursuant to the applicable Notice of Conversion. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 8(g) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation contained herein or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to any successor holder of Series C Preferred Stock.

9. Certain Adjustments.

(a) If the Corporation, at any time while this Series C Preferred Stock is outstanding: (i) pays a stock dividend or makes a distribution to holders of any class or series of capital stock of the Corporation in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Corporation upon conversion of this Series C Preferred Stock), (ii) subdivides outstanding shares of Common Stock into a greater number of shares, (iii) combines its outstanding shares of Common Stock into a smaller number of shares, or (iv) issues any shares of its capital stock by reclassification of the Common Stock, or (v) undertakes any transaction similar to or having the effect of the foregoing transactions, then the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding any treasury shares of the Corporation) outstanding immediately before such event, and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to this Section 9(a) shall become effective immediately after the record date for the determination of shareholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

(b) If the Corporation sells or issues any Common Stock or grants any option or right to purchase Common Stock at an effective price per share that is lower than $1.00 per share (the "Base Conversion Price"), then the Conversion Price shall be reduced to equal the Base Conversion Price. Such adjustment shall be made whenever such Common Stock, option or right are issued. Notwithstanding the foregoing, no adjustment will be made under this Section 9(b) in respect of an Exempt Issuance. "Exempt Issuance" means the issuance of (a) shares of Common Stock to employees, officers, directors or consultants of the Corporation pursuant to any stock or option plan duly adopted by a majority of the non-employee members of the Board of Directors of the Corporation or a majority of the members of a committee of non-employee directors established for such purpose, (b) securities upon the exercise or exchange of or conversion of any securities issued and outstanding on the date of the establishment of the Series C Preferred Stock, (c) securities issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock, (d) securities issued pursuant to acquisitions approved by a number of the members of the Board of Directors equal to one more than a majority of the members of the Board of Directors and (e) securities issued upon the exercise of warrants to purchase Common Stock which were issued concurrently with the issuance of the Series C Preferred Stock to the original Holder or Holders.

(c) If at any time the Corporation issues any rights, options or warrants pro rata to all holders of Common Stock to purchase Common Stock (or securities convertible into or exchangeable for Common Stock) (the "Purchase Rights"), then each Holder shall be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such Holder could have acquired if such Holder had held the number of shares of Common Stock acquirable upon complete conversion of such Holder's Preferred Stock (without regard to any limitations on exercise hereof, including without limitation, the Beneficial Ownership Limitation) immediately before the date on which a record is taken for the issuance of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the issuance of such Purchase Rights (provided, however, to the extent that the Holder's right to participate in any such Purchase Right would result in the

Holder exceeding the Beneficial Ownership Limitation, then the Holder shall not be entitled to participate in such Purchase Right to such extent and such Purchase Right to such extent shall be held in abeyance, for a period not to exceed 71 days, for the Holder until such time during such 71 day period, if ever, as its right thereto would not result in the Holder exceeding the Beneficial Ownership Limitation).

(d) If the Corporation, at any time while this Series C Preferred Stock is outstanding, distributes to all holders of Common Stock (and not to the Holders) evidences of its indebtedness or assets (including cash and cash dividends) or rights or warrants to subscribe for or purchase any security (other than the Common Stock, which shall be subject to Section 9(c)), then in each such case the Conversion Price shall be adjusted by multiplying such Conversion Price in effect immediately prior to the record date fixed for determination of shareholders entitled to receive such distribution by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then fair market value at such record date of the portion of such assets or evidence of indebtedness or rights or warrants so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors of the Corporation in good faith. In either case the adjustments shall be described in a statement delivered to the Holders describing the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

(e) Whenever the Conversion Price is adjusted pursuant to any provision of this Section 9, the Corporation shall promptly deliver to each Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

(f) Minimum Adjustment. Notwithstanding anything herein to the contrary, no adjustment of the Conversion Price shall be made pursuant to this Section 9 in an amount less than $.01 per share, and any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which together with any adjustments so carried forward shall amount to $.01 per share or more.

(g) If the Conversion Price is adjusted pursuant to Section 9(a), then the vote per share of the Series C Preferred Stock shall be further adjusted, to a vote per share determined by multiplying the vote per share of the Series C Preferred Stock then in effect for Section 7(a)(i), by a fraction of which the denominator shall be the number of shares of Common Stock (excluding any treasury shares of the Corporation) outstanding immediately before such event causing adjustment of the Conversion Price pursuant to Section 9(a), and of which the numerator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to this Section 9(g) shall become effective immediately after the record date for the determination of shareholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

10. Articles of Incorporation and Bylaws.

The rights of all holders of the Series C Preferred Stock and the terms of the Series C Preferred Stock are subject to the provisions of these Articles of Incorporation and the Bylaws of the Corporation, including, without limitation, the restrictions on transfer and ownership contained in Article IX of these Articles of Incorporation.

B. Exclusion of other rights.

Except as may otherwise be required by applicable law, the Series C Preferred Stock shall not have any voting powers, preferences or relative, participating, optional or other special rights, other than those specifically set forth in Article XII of these Articles of Incorporation (as such article may be amended from time to time) and in the other articles of these Articles of Incorporation. The Series C Preferred Stock shall have no preemptive or subscription rights.

C. Headings of subdivisions.

The headings of the various subdivisions hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

D. Severability of provisions.

If any voting powers, preferences or relative, participating, optional and other special rights of the Series C Preferred Stock or qualifications, limitations or restrictions thereof set forth in Article XII of these Articles of Incorporation (as such article may be amended from time to time) is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other voting powers, preferences and relative, participating, optional and other special rights of Series C Preferred Stock and qualifications, limitations and restrictions thereof set forth in Article XII of these Articles of Incorporation (as so amended) which can be given effect without the invalid, unlawful or unenforceable voting powers, preferences or relative, participating, optional or other special rights of Series C Preferred Stock or qualifications, limitations and restrictions thereof shall be given such effect. None of the voting powers, preferences or relative participating, optional or other special rights of the Series C Preferred Stock or qualifications, limitations or restrictions thereof herein set forth shall be deemed dependent upon any other such voting powers, preferences or relative, participating, optional or other special right of Series C Preferred Stock or qualifications, limitations or restrictions thereof unless so expressed herein.

Appendix D

BYLAWS

OF

SUPERTEL HOSPITALITY, INC.

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BYLAWS

OF

SUPERTEL HOSPITALITY, INC.

The Board of Directors of Supertel Hospitality, Inc. (formerly known as Humphrey Hospitality Trust, Inc.) (the "Corporation") hereby sets out the Bylaws of the Corporation in their entirety, as follows:

ARTICLE I

Offices

Section 2. Principal Office. The principal office of the Corporation shall be located at 1800 West Pasewalk Avenue, Suite 200, Norfolk, Nebraska, or at any other place or places as the Board of Directors may designate.

Section 3. Additional Offices. The Corporation may have additional offices at such places as the Board of Directors may from time to time determine or the business of the Corporation may require.

Section 4. Fiscal and Taxable Years. The fiscal and taxable years of the Corporation shall begin on January 1 and end on December 31.

ARTICLE II

Meetings of Shareholders

Section 1. Place. All meetings of shareholders shall be held at 1800 West Pasewalk Avenue, Suite 200, Norfolk, Nebraska 68701, or at such other place within the United States as shall be stated in the notice of the meeting.

Section 2. Annual Meeting. The CEO or the Board of Directors may fix the time of the annual meeting of the shareholders for the election of Directors and the transaction of any business as may be properly brought before the meeting, but if no such date and time is fixed by the CEO or the Board of Directors, the meeting for any calendar year shall be held on the fourth Thursday in May, if that day is not a legal holiday. If that day is a legal holiday, the annual meeting shall be held on the next succeeding business day that is not a legal holiday.

Section 3. Special Meetings. The CEO, a majority of the Board of Directors or a majority of the Independent Directors may call special meetings of the shareholders. Special meetings of shareholders also shall be called by the Secretary upon the written request of the holders of shares entitled to cast not less than ten percent (10%) of all the votes entitled to be cast at such meeting. Such request shall state the purpose of such meeting and the matters proposed to be acted on at such meeting. The Secretary shall inform such shareholders of the reasonably estimated cost of preparing and mailing notice of the meeting and, upon payment to the Corporation of such costs, the Secretary shall give notice to each shareholder entitled to notice of the meeting. Unless requested by shareholders entitled to cast a majority of all the votes entitled to be cast at such meeting, a special meeting need not be called to consider any matter which is substantially the same as a matter voted on at any annual or special meeting of the shareholders held during the preceding twelve months.

Section 4. Notice. Not less than 10 nor more than 60 days before each meeting of shareholders, the Secretary shall give to each shareholder entitled to vote at such meeting and to each shareholder not entitled to vote who is entitled to notice of the meeting, written or printed notice stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by statute, the purpose for which the meeting is called, either by mail or by presenting it to such shareholder personally or by leaving it at his residence or usual place of business. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to

the shareholder at his post office address as it appears on the records of the Corporation, with postage thereon prepaid.

Notice of a meeting of shareholders to act on (i) an amendment of the Articles of Incorporation of the Corporation (the "Articles of Incorporation"), (ii) plan of merger or share exchange, (iii) the sale, lease, exchange or other disposition of all, or substantially all, the property of the Corporation otherwise than in the usual and regular course of its business, or (iv) the dissolution of the Corporation, shall be given in the manner provided above, to each shareholder, whether or not entitled to vote, not less than twenty-five nor more than sixty days before the date of the meeting. Any such notice shall state that one of the purposes of the meeting is to consider the particular extraordinary corporate act and, when applicable, shall be accompanied by a copy of the (i) proposed amendment, (ii) plan of merger or share exchange, or (iii) agreement pursuant to which the disposition of all or substantially all of the Corporation's property will be effected.

Section 5. Scope of Notice. No business shall be transacted at a special meeting of shareholders except that specifically designated in the notice of the meeting. Subject to the provisions of Section 16 of this Article II, any business of the Corporation may be transacted at the annual meeting without being specifically designated in the notice, except such business as is required by statute to be stated in such notice.

Section 6. Organization. At every meeting of the shareholders, the CEO, if there be one, shall conduct the meeting or, in the case of vacancy in office or absence of the CEO, one of the following officers present shall conduct the meeting and act as Chairman in the order stated: the Chairman of the Board, Vice Chairman of the Board, if there be one, the President, the Vice Presidents in their order of rank and seniority, or a Chairman chosen by the shareholders entitled to cast a majority of the votes which all shareholders present in person or by proxy are entitled to cast. The Secretary, or, in his absence, an assistant secretary, or in the absence of both the Secretary and assistant secretaries, a person appointed by the Chairman shall act as Secretary.

Section 7. Quorum. At any meeting of shareholders, the presence in person or by proxy of shareholders entitled to cast a majority of all the votes entitled to be cast at such meeting shall constitute a quorum; but this Section 7 shall not affect any requirement under any statute, the Articles of Incorporation or these Bylaws for the vote necessary for the adoption of any measure. If such quorum shall not be present at any meeting of the shareholders, the shareholders representing a majority of the shares entitled to vote at such meeting, present in person or by proxy, may vote to adjourn the meeting from time to time to a date not more than 120 days after the original record date without notice other than announcement at the meeting until such quorum shall be present. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified. Any meeting of the shareholders, including one at which directors are to be elected, may be adjourned as the presiding officer of the meeting, or the shareholders present in person or by proxy and entitled to vote by majority of the votes cast, shall direct to a different date, time or place for such periods of not more than 120 days after the original record date without notice other than announcement at the meeting of the new date, time or place.

Section 8. Voting. A plurality of all the votes cast at a meeting of shareholders duly called and at which a quorum is present shall be sufficient to elect a director. There shall be no cumulative voting. Each share of stock may be voted for as many individuals as there are Directors to be elected and for whose election the share is entitled to be voted. A majority of the votes cast at a meeting of shareholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute, by the Articles of Incorporation or by these Bylaws. Each shareholder of record shall have the right, at every meeting of shareholders, to one vote for each share held.

Section 9. Proxies. A shareholder may vote the shares of stock owned of record by him, either in person or by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting. No proxy shall be valid after eleven months from the date of its execution, unless otherwise provided in the proxy.

Section 10. Voting of Shares by Certain Holders. Shares registered in the name of another corporation, if entitled to be voted, may be voted by the president, a vice president or a proxy appointed by the president or a vice president of such other corporation, unless some other person who has been appointed to vote

such shares pursuant to a bylaw or a resolution of the board of directors of such other corporation presents a certified copy of such bylaw or resolution, in which case such person may vote such shares. Any fiduciary may vote shares registered in his name as such fiduciary, either in person or by proxy.

Shares of its own stock indirectly owned by this Corporation shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in which case they may be voted and shall be counted in determining the total number of outstanding shares at any given time.

The Board of Directors may adopt by resolution a procedure by which a shareholder may certify in writing to the Corporation that any shares of stock registered in the name of the shareholder are held for the account of a specified person other than the shareholder. The resolution shall set forth the class of shareholders who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be contained in it; if the certification is with respect to a record date or closing of the stock transfer books, the time after the record date or closing of the stock transfer books within which the certification must be received by the Corporation; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt of such certification, the person specified in the certification shall be regarded as, for the purposes set forth in the certification, the shareholder of record of the specified stock in place of the shareholder who makes the certification.

Section 11. Inspectors. At any meeting of shareholders, the Chairman of the meeting may, or upon the request of any shareholder shall, appoint one or more persons as inspectors for such meeting. Such inspectors shall ascertain and report the number of shares represented at the meeting based upon their determination of the validity and effect of proxies, count all votes, report the results and perform such other acts as are proper to conduct the election and voting with impartiality and fairness to all the shareholders.

Each report of an inspector shall be in writing and signed by him or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be PRIMA FACIE evidence thereof.

Section 12. Fixing Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of the shareholders or any adjournment thereof, or entitled to receive payment for any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than seventy days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section such determination shall apply to any adjournment thereof.

Section 13. Action Without a Meeting. Any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if a consent in writing, setting forth such action, is signed by each shareholder entitled to vote on the matter and any other shareholder entitled to notice of a meeting of shareholders (but not to vote thereat) has waived in writing any right to dissent from such action, and such consent and waiver are filed with the minutes of proceedings of the shareholders.

Section 14. Voting by Ballot. Voting on any question or in any election may be VIVA VOCE unless the presiding officer shall order or any shareholder shall demand that voting be by ballot.

Section 15. Voting List. The officer or agent having charge of the stock transfer books for shares of the Corporation shall make, at least ten (10) days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting or any adjournment thereof, with the address of and the number of shares held by each. Such list, for a period of ten (10) days prior to such meeting, shall be kept on file at the

registered office of the Corporation or at its principal place of business or at the office of its transfer agent or registrar and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original stock transfer books shall be prima facie evidence as to who are the shareholders entitled to examine such list or transfer books or to vote at any meeting of shareholders. If the requirements of this section have not been substantially complied with, the meeting shall, on the demand of any shareholder in person or by proxy, be adjourned until the requirements are complied with.

Section 16. Shareholder Proposals. To be properly brought before an annual meeting of shareholders, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a shareholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than ninety (90) days in advance of the annual meeting. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting (including the specific proposal to be presented) and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the shareholder proposing such business, (iii) the class and number of shares of the Corporation that are beneficially owned by the shareholder, and (iv) any material interest of the shareholder in such business.

In the event that a shareholder attempts to bring business before an annual meeting without complying with the provisions of this Section 16, the Chairman of the meeting shall declare to the meeting that the business was not properly brought before the meeting in accordance with the foregoing procedures, and such business shall not be transacted.

No business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 16, provided, however, that nothing in this Section 16 shall be deemed to preclude discussion by any shareholder of any business properly brought before the annual meeting.

ARTICLE III

Directors

Section 1. General Powers. The Board of Directors shall have full power to conduct, manage, and direct the business and affairs of the Corporation, and all powers of the Corporation, except those specifically reserved or granted to the shareholders by statute or by the Articles of Incorporation or these Bylaws, shall be exercised by, or under the authority of, the Board of Directors.

Section 2. Number, Tenure and Qualifications. The number of Directors of the Corporation shall be not less than three (3) nor more than nine (9). Directors need not be shareholders in the Corporation.

At all times (except during a period not to exceed sixty (60) days following the death, resignation, incapacity or removal from office of a Director prior to expiration of the Director's term of office), a majority of the Board of Directors shall be comprised of Independent Directors.

Section 3. Changes in Number; Vacancies. Any vacancy occurring on the Board of Directors may, subject to the provisions of Section 5 of this Article III, be filled by a majority of the remaining members of the Board of Directors, although such majority is less than a quorum; provided, however, that a majority of Independent Directors shall nominate replacements for vacancies among the Independent Directors, which replacements must be elected by a majority of the Directors, including a majority of the Independent Directors. Any vacancy occurring by reason of an increase in the number of Directors may be filled by action of a majority of the entire Board of Directors including a majority of Independent Directors. If the shareholders of any class or series are entitled separately to elect one or more Directors, a majority of the remaining Directors elected by that class or series or the sole remaining Director elected by that class or series may fill any vacancy among the number of Directors elected

by that class or series. A Director elected by the Board of Directors to fill a vacancy shall be elected to hold office for the balance of the term of the Director he is replacing or until his successor is elected and qualified. The Board of Directors may declare vacant the office of a Director who has been declared of unsound mind by an order of court, who has pled guilty or nolo contendere to, or been convicted of, a felony involving moral turpitude, or who has willfully violated the Company's Articles of Incorporation or these Bylaws.

Section 4. Resignations. Any Director or member of a committee may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time be specified, at the time of the receipt by the Chairman of the Board, the CEO, the President or the Secretary.

Section 5. Removal of Directors. The shareholders may, at any time, remove any Director, with or without cause, by the affirmative vote of the holders of not less than a majority of all the shares entitled to vote on the election of Directors and may elect a successor to fill any resulting vacancy for the balance of the term of the removed Director.

Section 6. Annual and Regular Meetings. An annual meeting of the Board of Directors shall be held immediately after and at the same place as the annual meeting of shareholders, no notice other than this bylaw being necessary. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Maryland, for the holding of regular meetings of the Board of Directors without other notice than such resolution.

Section 7. Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the CEO, the President, a majority of the Board of Directors or a majority of the Independent Directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Maryland, as the place for holding any special meeting of the Board of Directors called by them.

Section 8. Notice. Notice of any special meeting of the Board of Directors shall be given by written notice delivered personally, telegraphed, telecopied or mailed to each Director at his business or resident address. Personally delivered, telegraphed or telecopied notices shall be given at least two days prior to the meeting. Notice by mail shall be given at least five days prior to the meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail properly addressed, with postage thereon prepaid. If given by telegram, such notice shall be deemed to be given when the telegram is delivered to the telegraph company. Neither the business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Board of Directors need be stated in the notice, unless specifically required by statute or these Bylaws.

Section 9. Quorum. Subject to the provisions of Section 10 of this Article III, a majority of the entire Board of Directors shall constitute a quorum for transaction of business at any meeting of the Board of Directors, provided that, if less than a quorum is present at said meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

Subject to the provisions of Section 10 of this Article III, the Directors present at a meeting which has been duly called and convened may continue to transact business until adjournment, notwithstanding the withdrawal of enough Directors to leave less than a quorum.

Section 10. Voting. The action of the majority of the Directors present at a meeting at which a quorum is present shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by the Articles of Incorporation, these Bylaws, or applicable statute.

Section 11. Telephone Meetings. Members of the Board of Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

Section 12. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if a consent in writing to such action is signed by each Director and such written consent is filed with the minutes of proceedings of the Board of Directors.

Section 13. Compensation. Directors shall receive such reasonable compensation for their services as Directors as the Board of Directors may fix or determine from time to time; such compensation may include a fixed sum, shares of capital stock of the Corporation and reimbursement of reasonable expenses incurred in traveling to and from or attending regular or special meetings of the Board of Directors or of any committee thereof.

Section 14. Policies and Resolutions. It shall be the duty of the Board of Directors to insure that the purchase, sale, retention and disposal of the Corporation's assets, the investment policies and the borrowing policies of the Corporation and the limitations thereon or amendment thereof are at all times:

(a) consistent with such policies, limitations and restrictions as are contained in these Bylaws, or in the Corporation's Articles of Incorporation, or as described in the Corporation's ongoing periodic reports filed with the SEC, subject to revision from time to time at the discretion of the Board of Directors without shareholder approval unless otherwise required by law; and

(b) in compliance with the restrictions applicable to real estate investment trusts pursuant to the Internal Revenue Code of 1986, as amended.

Section 15. Nominations. Subject to the rights of holders of any class or series of stock having a preference over the common stock as to dividends or upon liquidation, nominations for the election of Directors shall be made by the Company's notice of the meeting of shareholders for such election, the Board of Directors, or by any shareholder entitled to vote in the election of Directors generally.

Any shareholder entitled to vote in the election of Directors generally may nominate one or more persons for election as Directors at a meeting only if written notice of such shareholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than (i) with respect to an election to be held at an annual meeting of shareholders, ninety (90) days in advance of such meeting, and (ii) with respect to an election to be held at a special meeting of shareholders for the election of Directors, the close of business on the seventh (7th) day following the date on which notice of such meeting is first given to shareholders. Each notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a Director of the Corporation if so elected. The Chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

ARTICLE IV

Committees

Section 1. Committees of the Board. The Board of Directors may appoint from among its members an executive committee and other committees comprised of two or more Directors. A majority of the members of any committee so appointed shall be Independent Directors. The Board of Directors shall appoint (i) an acquisition committee which is comprised of not less than two members, a majority of whom are Independent Directors and (ii) an audit committee of which is comprised entirely of Independent Directors. To the extent specified by the Board of Directors, each committee may exercise the authority of the Board of Directors, except that a committee may not (i) approve or recommend to shareholders action that is required by law to be approved by shareholders; (ii) fill vacancies on the Board of Directors or on any of its committees, (iii) amend the Articles of Incorporation; (iv) adopt,

amend, or repeal these Bylaws; (v) approve a plan of merger not requiring shareholder approval; (vi) authorize or approve a distribution, except according to a general formula or method prescribed by the Board of Directors; or (vii) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, references, and limitations of a class or series of shares, except that the Board of Directors may authorize a committee, or a senior executive officer of the Corporation, to do so within limits, if any, specifically prescribed by the Board of Directors.

Notice of committee meetings shall be given in the same manner as notice for special meetings of the Board of Directors.

One-third, but not less than two, of the members of any committee shall be present in person at any meeting of such committee in order to constitute a quorum for the transaction of business at such meeting, and the act of a majority present shall be the act of such committee. The Board of Directors may designate a chairman of any committee, and such chairman or any two members of any committee may fix the time and place of its meetings unless the Board shall otherwise provide. In the absence or disqualification of any member of any such committee, the members thereof present at any meeting and not disqualified from voting, whether or not they constitute a quorum, may unanimously appoint another Director to act at the meeting in the place of such absent or disqualified members; provided, however, that in the event of the absence or disqualification of an Independent Director, such appointee shall be an Independent Director.

Each committee shall keep minutes of its proceedings and shall report the same to the Board of Directors at the meeting next succeeding, and any action by the committees shall be subject to revision and alteration by the Board of Directors, provided that no rights of third persons shall be affected by any such revision or alteration.

Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to fill all vacancies, to designate alternative members to replace any absent or disqualified member, or to dissolve any such committee.

Section 2. Telephone Meetings. Members of a committee of the Board of Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

Section 3. Action By Committees Without a Meeting. Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if a consent in writing to such action is signed by each member of the committee and such written consent is filed with the minutes of proceedings of such committee.

ARTICLE V

Officers

Section 1. General Provisions. The officers of the Corporation may consist of a Chairman of the Board, a Vice Chairman of the Board, a CEO, a President, one or more Vice Presidents, a Treasurer, one or more assistant treasurers, a Secretary, and one or more assistant secretaries and such other officers as may be elected in accordance with the provisions of Section 2 of this Article VI. The officers of the Corporation shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as may be convenient. Each officer shall hold office until his successor is elected and qualifies or until his death, resignation or removal in the manner hereinafter provided. Any two or more offices may be held by the same person. In its discretion, the Board of Directors may leave unfilled any office except that of President and Secretary. Election or appointment of an officer or agent shall not of itself create contract rights between the Corporation and such officer or agent.

Section 2. Subordinate Officers, Committees and Agents. The Board of Directors may from time to time elect such other officers and appoint such committees, employees, other agents as the business of the Corporation may require, including one or more assistant secretaries, and one or more assistant treasurers, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws, or as the Board of Directors may from time to time determine. The Directors may delegate to any officer or committee the power to elect subordinate officers and to retain or appoint employees or other agents.

Section 3. Removal and Resignation. Any officer or agent of the Corporation may be removed by the Board of Directors if in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Corporation may resign at any time by giving written notice of his resignation to the Board of Directors, the Chairman of the Board, the CEO, the President or the Secretary. Any resignation shall take effect at the time specified therein or, if the time when it shall become effective is not specified therein, immediately upon its receipt. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation.

Section 4. Vacancies. A vacancy in any office may be filled by the Board of Directors for the balance of the term.

Section 5. General Powers. All officers of the Corporation as between themselves and the Corporation shall, respectively, have such authority and perform such duties in the management of the property and affairs of the Corporation as may be determined by resolution of the Board of Directors, or in the absence of controlling provisions in a resolution of the Board of Directors, as may be provided in these Bylaws.

Section 6. Duties of the Chairman of the Board. The Chairman of the Board of Directors shall preside at all meetings of stockholders and the Board of Directors, and shall have such other duties as may be assigned by resolution of the Board of Directors. The Vice Chairman of the Board of Directors, if any, may preside at meetings of the Board of Directors in the absence of the chairman of the Board of Directors and the CEO, and shall have such others as may be assigned by resolution of the Board of Directors.

Section 7. Duties of the Chief Executive Officer. Subject to the authority of the Board of Directors, the Chief Executive Officer ("CEO") of the Corporation shall be the highest ranking management officer of the Corporation and shall be primarily responsible for the execution of policies of the Board of Directors. He shall have authority over the general management and direction of the business of the Corporation and its divisions, if any, subject only to the ultimate authority of the Board of Directors. The CEO shall preside at all meetings of the stockholders and Board of Directors in the absence of the Chairman of the Board. He may sign and execute in the name of the Corporation share certificates, deeds, mortgages, bonds, contracts or other instruments except in cases where the signing and the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law otherwise to be signed or executed. In addition, he shall perform all duties incident to the office of the CEO and such other duties as from time to time may be assigned to him by the Board of Directors. The CEO shall assign or delegate job duties, responsibilities, and authorities to other officers of the Company, or designate others to do so.

Section 8. Duties of the President. In the absence of a CEO, the President shall be the chief executive officer of the Corporation with the duties and authority described in Section 7 above. Otherwise, the President shall be the chief operating officer of the Corporation primarily responsible for and shall have authority over the general management of day-to-day operations of the Corporation and its business and divisions, if any, subject only to the ultimate authority of the Board of Directors and the CEO. In addition, he shall perform all duties incident to the office of the President and such other duties as from time to time may be assigned to him by the Board of Directors.

Section 9. Duties of the Vice-Presidents. Each Vice-President, if any, shall have such powers and duties as may from time to time be assigned to him by the President or the Board of Directors. Any Vice-President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board of Directors, except where the signing and execution of such documents shall be expressly delegated by the Board of Directors or the President to some other officer or agent of the Corporation or shall be required by law or otherwise to be signed or executed.

Section 10. Duties of the Treasurer. The Treasurer shall have such powers and duties as may be assigned to him by the President of the Board of Directors. The Treasurer may sign and execute in the name of the Corporation share certificates, deeds, mortgages, bonds, contracts or other instruments, except in cases where the signing and the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law or otherwise to be signed or executed.

Section 11. Duties of the Secretary. The Secretary shall act as secretary of all meetings of the Board of Directors, the Executive Committee and all other Committees of the Board and shareholders of the Corporation. He shall keep and preserve the minutes of all such meetings in the proper book or books provided for that purpose. He shall see that all notices required to be given by the Corporation are duly given and served; shall have custody of the seal of the Corporation and shall affix the seal or cause it to be affixed to all share certificates of the Corporation and to all documents the execution of which on behalf of the Corporation under its corporate seal is duly authorized in accordance with law or the provisions of these Bylaws; shall have custody of all deeds, leases, contracts and other important corporate documents; shall have charge of the books, records and papers of the Corporation relating to its organization and management as a Corporation; shall see that all reports, statements and other documents required by law (except tax returns) are properly filed; and shall, in general perform, all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board of Directors, the CEO or the President.

Section 12. Other Duties of Officers. Any officer of the Corporation shall have, in addition to the duties prescribed herein or by law, such other duties as from time to time shall be prescribed by the Board of Directors, the CEO or the President.

Section 13. Salaries. The salaries of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary by reason of the fact that he is also a Director of the Corporation.

ARTICLE VI

Contracts, Notes, Checks and Deposits

Section 1. Contracts. The Board of Directors may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation and such authority may be general or confined to specific instances.

Section 2. Checks and Drafts. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by the Board of Directors.

Section 3. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may designate.

ARTICLE VII

Shares of Stock

Section 1. Certificates of Stock. Shares of the Corporation’s stock may be certificated or uncertificated; provided however each shareholder shall be entitled to a certificate or certificates which shall represent and certify the number of shares of each kind and class of shares held by him in the Corporation. Each such certificate shall be signed by the CEO or the President or a Vice President and countersigned by the Secretary or an assistant secretary or the Treasurer or an assistant treasurer and may be sealed with the corporate seal.

The signatures on the certificates may be either manual or facsimile. Certificates shall be consecutively numbered; and if the Corporation shall, from time to time, issue several classes of stock, each class may have its own number series. A certificate is valid and may be issued whether or not an officer who signed it is still an officer when it is issued. Each certificate representing stock which is restricted as to its transferability or voting powers, which is preferred or limited as to its dividends or as to its share of the assets upon liquidation or which is redeemable at the option of the Corporation, shall have a statement of such restriction, limitation, preference or redemption provision, or a summary thereof, plainly stated on the certificate. In lieu of such statement or summary, the Corporation may set forth upon the face or back of the certificate a statement that the Corporation will furnish to any shareholder, upon request and without charge, a full statement of such information.

Except as otherwise provided by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificated shares of the same class and series shall be identical. Within a reasonable time after issuance or transfer of uncertificated shares of the Corporation, the Corporation shall send, or cause to be sent, to the shareholder a written statement that shall include the information required by the State of Maryland to be set forth on certificates for shares of capital stock.

Section 2. Lost Certificate. The Board of Directors may direct a new certificate to be issued in place of any certificate previously issued by the Corporation alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing the issuance of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or his legal representative to advertise the same in such manner as it shall require and/or to give bond, with sufficient surety, to the Corporation to indemnify it against any loss or claim which may arise as a result of the issuance of a new certificate.

Section 3. Transfer Agents and Registrars. At all such times that the Corporation's securities are listed on a national securities exchange or qualified for trading in the over-the-counter market, the Board of Directors shall appoint one or more banks or trust companies in such city or cities as the Board of Directors may deem advisable, from time to time, to act as transfer agents and/or registrars of the shares of stock of the Corporation; and, upon such appointments being made, no certificate representing shares shall be valid until countersigned by one of such transfer agents and registered by one of such registrars.

Section 4. Transfer of Stock. No transfers of shares of stock of the Corporation shall be made if (i) void ab initio pursuant to any provision of the Corporation's Articles of Incorporation or (ii) the Board of Directors, pursuant to any provision of the Corporation's Articles of Incorporation, shall have refused to permit the transfer of such shares. Permitted transfers of shares of stock of the Corporation shall be made on the stock records of the Corporation only upon the instruction of the registered holder thereof, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary or with a transfer agent or transfer clerk, and the payment of all taxes thereon, and in the case of certificated shares, upon surrender of the certificate or certificates for such shares properly endorsed or accompanied by a duly executed stock transfer power, and in the case of uncertificated shares, upon receipt of proper transfer instructions from the holder of uncertificated shares. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, or upon receipt of proper transfer instructions from the holder of uncertificated shares, as to any transfers not prohibited by any provision of the Corporation's Articles of Incorporation or by action of the Board of Directors thereunder, it shall be the duty of the Corporation to issue new certificated or uncertificated shares to the person entitled thereto, and record the transaction upon its books and cancel any old certificates.

Section 5. Stock Ledger. The Corporation shall maintain at its principal office or at the office of its counsel, accountants or transfer agent, an original or duplicate stock ledger containing the name and address of each shareholder and the number of shares of stock of each class held by such shareholder.

ARTICLE VIII

Dividends

Section 1. Declaration. Dividends upon the shares of stock of the Corporation may be declared by the Board of Directors, subject to applicable provisions of law and the Articles of Incorporation. Dividends may be paid in cash, property or shares of the Corporation, subject to applicable provisions of law and the Articles of Incorporation.

Section 2. Contingencies. Before payment of any dividends, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors may from time to time, in its absolute discretion, think proper as a reserve fund for contingencies, for equalizing dividends, for repairing or maintaining the property of the Corporation, its subsidiaries or any partnership for which it serves as general partner, or for such other purpose as the Board of Directors shall determine to be in the best interest of the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE IX

Seal

Section 1. Seal. The Corporation may have a corporate seal, which may be altered at will by the Board of Directors. The Board of Directors may authorize one or more duplicate or facsimile seals and provide for the custody thereof.

Section 2. Affixing Seal. Whenever the Corporation is required to place its corporate seal to a document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a corporate seal to place the word "(SEAL)" adjacent to the signature of the person authorized to execute the document on behalf of the Corporation.

ARTICLE X

Waiver of Notice

Whenever any notice is required to be given pursuant to the Articles of Incorporation or these Bylaws of the Corporation or pursuant to applicable law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at nor the purpose of any meeting need be set forth in the waiver of notice, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE XI

Amendment of Bylaws

Section 1. By Directors. The Board of Directors shall have the power to adopt, alter or repeal any Bylaws of the Corporation and to make new Bylaws, except that the Board of Directors shall not alter or repeal this Article XI or any Bylaws made by the shareholders.

Section 2. By Shareholders. The shareholders shall have the power to adopt, alter or repeal any Bylaws of the Corporation and to make new Bylaws.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549
FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to ___________

Commission file number: 001-34087

Supertel Hospitality, Inc.

(Exact name of registrant as specified in its charter)

Virginia	**52-1889548**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1800 W. Pasewalk Ave., Norfolk, NE	**68701**
(Address of principal executive offices)	(Zip Code)

(402) 371-2520
(Registrant’s telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share	The NASDAQ Stock Market, LLC
8% Series A Preferred Stock, $.01 par value per share	The NASDAQ Stock Market, LLC
10% Series B Cumulative Preferred Stock, $.01 par value per share	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ]No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes[ ]No[X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of June 30, 2013 the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $19.8 million based on the price at which the common stock was last sold on that date as reported on the Nasdaq Global Market.

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at February 28, 2014
Common Stock, $.01 par value per share	**2,898,286 shares**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive Proxy Statement for the Registrant’s 2014 Annual Meeting of Stockholders (the “2014 Proxy Statement”) are incorporated into Part III.

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PART I

Item 1. Business

References to "we", "our", "us" and "Company" refer to Supertel Hospitality, Inc., including, as the context requires, its direct and indirect subsidiaries.

(a) Description of Business

Overview

We are a self-administered real estate investment trust (REIT), and through our subsidiaries, as of December 31, 2013 we owned 69 limited service hotels in 21 states. Our hotels operate under several national franchise and independent brands.

Our significant events for 2013 include:

- we sold 17 hotels for gross proceeds of $22.0 million and used the net proceeds primarily to pay off the underlying loans;
- commenced a public offering for $100 million of our common stock, but withdrew the offering due to market conditions;
- rebranding of four of our hotels, and the impact of the federal government sequester on two hotels, negatively impacted our results;
- as of December 31, 2013, we had 19 hotels classified as held for sale with a total net book value of $31.5 million. Gross proceeds from the sales are expected to be $41.7 million, and net proceeds will be used to pay off the underlying loans in the amount of $24.1 million, with remaining cash used to reduce short term borrowings;
- non cash impairment charges of $7.1 million were booked against hotel properties; and
- we affected a one-for-eight reverse split of our common stock.

Except as otherwise indicated, information in this Annual Report on Form 10-K reflects the one-for-eight reverse stock split of our common stock effected on August 14, 2013.

General Development of Business

We are a REIT for federal income tax purposes and we were incorporated in Virginia on August 23, 1994. Our common stock began to trade on The Nasdaq Global Market on October 30, 1996. Our Series A and Series B preferred stock began to trade on The Nasdaq Global Market on December 30, 2005 and June 3, 2008, respectively.

Through our wholly owned subsidiaries, Supertel Hospitality REIT Trust and E&P REIT Trust, we own a controlling interest in Supertel Limited Partnership and E&P Financing Limited Partnership. We conduct our business through a traditional umbrella partnership REIT, or UPREIT, in which our hotel properties are owned by our operating partnerships, Supertel Limited Partnership and E&P Financing Limited Partnership, limited partnerships, limited liability companies or other subsidiaries of our operating partnerships. We currently own, indirectly, an approximate 99% partnership interest in Supertel Limited Partnership and a 100% partnership interest in E&P Financing Limited Partnership. In the future, these limited partnerships may issue limited partnership interests to third parties from time to time in connection with our acquisitions of hotel properties or the raising of capital.

In order for the income from our hotel property investments to constitute "rents from real properties" for purposes of the gross income tests required for REIT qualification, the income we earn cannot be derived from the operation of any of our hotels. Therefore, we lease each of our hotel properties to our wholly owned taxable REIT subsidiaries. Under the REIT Modernization Act ("RMA"), which became effective January 1, 2000, REITs are

permitted to lease their hotels to wholly owned taxable REIT subsidiaries. We formed TRS Leasing, Inc. and its wholly owned subsidiaries (collectively the "TRS Lessee") in accordance with the RMA. Pursuant to the RMA, the TRS Lessee is required to enter into management agreements with an "eligible independent contractor" who will manage the hotels leased by the TRS Lessee. Accordingly, the hotels are leased to our taxable TRS Lessee and are managed by Hospitality Management Advisors, Inc. ("HMA"), Strand Development Company LLC ("Strand"), Kinseth Hotel Corporation ("Kinseth"), and Cherry Cove Hospitality Management, LLC ("Cherry Cove") pursuant to management agreements.

(b) Financial Information About Industry Segments

We are engaged primarily in the business of owning equity interests in hotel properties and therefore our business is disclosed as one reportable segment. See the Consolidated Financial Statements and notes thereto included in Item 8 of this Annual Report on Form 10-K for certain financial information required in this Item 1.

(c) Narrative Description of Business

General At December 31, 2013, we owned, through our subsidiaries, 69 limited service hotels in 21 states. The hotels are operated by HMA (18 hotels), Strand (20 hotels), Kinseth (30 hotels) and Cherry Cove (1 hotel).

Mission Statement Our primary objective is to consistently generate a competitive rate of return for our shareholders through a disciplined approach to real estate investing.

Sale of Hotels We may undertake the sale of one or more of the hotels from time to time in response to changes in market conditions, our current or projected return on our investment in the hotels or other factors which we deem relevant. During the year 2011, six of our hotels were sold and 24 properties were held for sale as of December 31, 2011; during the year 2012, 15 of our hotels were sold and 22 properties were held for sale as of December 31, 2012; and during the year 2013, 17 of our hotels were sold and 19 properties were held for sale as of December 31, 2013.

Just as we carefully evaluate the hotels we plan to acquire, our asset management team periodically evaluates our existing properties to determine if an asset is likely to underperform in the market. If we determine that a property no longer is competitive in a market and has limited opportunity to be repositioned, we will look to monetize the asset in a disciplined and timely manner. The process of identifying assets for disposition is closely related to the acquisition criteria and the overall direction of the organization. Every asset is periodically reviewed by management in the context of the entire portfolio to evaluate its relative ranking against all of the properties. If an asset is determined to be underperforming our projections and is thereby no longer accretive, and has a low probability of being repositioned, we will look to dispose of the investment as soon as possible within the constraints of the market and lender's covenants.

Growth Strategy We are engaged in an ongoing strategy to shift our ownership from midscale and economy hotels to upscale and upper midscale select service hotels located primarily in secondary and tertiary markets, including hotels operating under premium franchise brands, located outside of the top 25 Metropolitan Statistical Areas ("MSAs") in the U.S. In furtherance of our strategy, in May 2012, following a private capital raise, we acquired the 100-room Hilton Garden Inn—Solomons (Dowell) outside Washington, D.C. for $11.5 million.

Our growth strategy may only be implemented if we are successful in attracting sufficient capital in the future. We are exploring methods to satisfy our liquidity needs, but to date we have not been able to complete a transaction that will provide sufficient liquidity to satisfy our operating and capital needs for the next year.

We intend to grow our asset base through selective acquisitions of hotels that meet one or more of the investment criteria described below. We believe that our existing relationships with owners, operators and developers of select service hotels will provide us, provided we have the capital, with access to certain acquisition opportunities before they become known to other real estate investors.

We intend to target upscale and upper midscale hotels that meet one or more of the following investment criteria:

- hotels that operate under leading premium franchise brands and possess key attributes such as building design and décor that is consistent with current brand standards;

- hotels that generate attractive net operating income margins at average occupancy rates greater than 60% and Smith Travel Research, or STR, index occupancy greater than 100;
- hotels that are located outside the top 25 MSAs, in close proximity to multiple demand drivers, including large corporations, regional hospitals, regional business hubs, recreational travel destinations, significant retail centers and military installations, among others;
- hotels that were constructed or underwent major renovations less than eight years prior to our acquisition and have significant time (generally ten or more years) remaining on the existing franchise license;
- hotels that have some "value-added" growth potential through operating efficiencies, institutional asset management, repositioning, renovations or rebranding;
- hotels that can be acquired at a discount to replacement cost;
- hotels with 80 or more rooms that provide for some operating efficiencies; and
- hotels that can be acquired in off-market transactions.

Our organizational documents do not limit the types of investments we can make; however, our intent for new acquisitions is to focus primarily on upper midscale and upscale properties with orderly divestiture of the economy properties and a majority of the midscale properties over the next seven to ten years.

Internal Growth Strategy We seek to grow internally through improvements to our existing hotels' operating results, principally through increased occupancy and average daily rates, and through reductions in operating expenses. Internally generated cash flow and any residual cash flow, together with funds generated through external financing sources will principally be used to fund acquisitions and ongoing capital improvements to our hotels including furniture, fixtures and equipment. In addition to the aforementioned uses, the Company must generate sufficient cash flow to meet other working capital needs, which include debt and dividend payments.

Hotel Management HMA, Strand, Kinseth and Cherry Cove, all eligible independent contractors, manage our hotels pursuant to hotel management agreements with TRS Lessee. The hotel management agreements provide that the management companies have control of all operational aspects of the hotels, including employee-related matters. The management companies must generally maintain each hotel under their management in good repair and condition and make routine maintenance, repairs and minor alterations. Additionally, the management companies must operate the hotels in accordance with the national franchise agreements that cover the hotels, which includes, as applicable, using franchisor sales and reservation systems as well as abiding by franchisors' marketing standards. The management companies may not assign their management agreements without our consent.

The management agreements generally require TRS Lessee to fund debt service, working capital needs and capital expenditures and fund the management companies' third-party operating expenses, except those expenses not related to the operation of the hotels. TRS Lessee is responsible for obtaining and maintaining insurance policies with respect to the hotels.

Management Company Fees The Company through TRS Lessee has management agreements with HMA, Strand, Kinseth, and Cherry Cove as eligible independent contractors to manage the Company's hotels. Each of HMA, Strand, Kinseth, and Cherry Cove receives a monthly management fee with respect to the hotels they manage equal to 3.5% of the gross hotel income and 2.25% of hotel net operating income ("NOI"). NOI is equal to gross hotel income less operating expenses (exclusive of management fees, certain insurance premiums and employee bonuses, and personal and real property taxes).

The Company may terminate a management agreement, subject to cure rights, with respect to a hotel if the hotel fails to achieve at least 80% budgeted NOI and 90% of the benchmark for revenue per available room for the hotel. The Company may also terminate a management agreement, subject to cure rights, for all of the hotels subject to the agreement if the hotels as a group fail to achieve at least 80% budgeted NOI and 90% of the benchmark for revenue per available room for the hotels. A management agreement terminates with respect to a hotel upon sale of the hotel, subject to certain notice requirements. The Company may also terminate a management agreement with

respect to a hotel at any time without reason upon payment of a termination fee equal to 50% of the management fee paid with respect to the hotel during the prior 12 months.

With the exception of certain events of default as to which no grace period exists, if an event of default occurs and continues beyond the grace period set forth in the management agreement, the non-defaulting party has the option of terminating the agreement.

The management agreement provides that each party, subject to certain exceptions, indemnifies and holds harmless the other party against any liabilities stemming from certain negligent acts or omissions, breach of contract, willful misconduct or tortuous actions by the indemnifying party or any of its affiliates.

HMA manages 18 Company hotels in Arkansas, Louisiana, Kentucky, Indiana, Virginia and Florida. Strand manages the Company's seven economy extended-stay hotels located in Georgia and South Carolina, as well as 13 additional Company hotels located in Georgia, Maryland, North Carolina, Pennsylvania, Tennessee, Virginia, and West Virginia. Kinseth manages 30 Company hotels in eight states primarily in the Midwest. Cherry Cove manages one hotel in Maryland. Each of the management agreements with HMA, Strand and Kinseth expire on May 31, 2014, and the management agreement with Cherry Cove expires on May 24, 2015. The management agreements renew for additional terms of one year unless either party to the agreement gives the other party written notice of termination at least 90 days before the end of a term.

Franchise Affiliation

Our 69 hotels owned at December 31, 2013 operate under the following national and independent brands:

Franchise Brand	**Number of Hotels**
Super 8 (1)	28
Comfort Inn/Comfort Suites (2)	17
Days Inn (1)	8
Savannah Suites (5)	7
Quality Inn (2)	2
Baymont Inn (1)	1
Clarion (2)	1
Hilton Garden Inn (3)	1
Key West Inn (6)	1
Rodeway Inn (2)	1
Sleep Inn (2)	1
Supertel Inn (4)	1
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(1) Super 8 ®, Days Inn ®, and Baymont Inn ® are registered trademarks of Wyndham Worldwide.

(2) Clarion®, Comfort Inn ®, Comfort Suites ®, Sleep Inn ®, Quality Inn®, and Rodeway Inn® are registered trademarks of Choice Hotels International, Inc.

(3) Hilton Garden Inn® is a registered trademark of Hilton Hotels Corporation.

(4) Supertel Inn® is a registered trademark of Supertel Hospitality, Inc.

(5) Savannah Suites® is a registered trademark of Guest House Inn Corp.

(6) Key West Inn ® is a registered trademark of Key West Inns.

Seasonality of Hotel Business

The hotel industry is seasonal in nature. Generally, occupancy rates, revenues and operating results for hotels operating in the geographic areas in which we operate are greater in the second and third quarters of the calendar year than in the first and fourth quarters, with the exception of our hotel located in Florida, which experiences peak demand in the first and fourth quarters of the year.

Competition

The hotel industry is highly competitive. Each of our hotels is located in a developed area that includes other hotel properties. The number of competitive hotel properties in a particular area could have a material adverse effect on revenues, occupancy and the average daily room rate of the hotels or at hotel properties acquired in the future. A number of our hotels have experienced increased competition in the form of newly constructed competing hotels in the local markets, and we expect the entry of new competition to continue in several additional markets over the next several years.

We may compete for investment opportunities with entities that have substantially greater financial resources than us. These entities generally may be able to accept more risk than we can prudently manage. Competition in general may reduce the number of suitable investment opportunities for us and increase the bargaining power of property owners seeking to sell. Further, we believe that competition from entities organized for purposes substantially similar to our objectives could increase significantly.

Employees

At December 31, 2013, the REIT had 18 employees. The management companies, which manage the 69 hotels, had workforces of approximately 1,100 employees, whom are dedicated to the operation of the hotels.

(d) Available Information

Our executive offices are located at 1800 West Pasewalk Avenue, Suite 200, Norfolk, Nebraska 68701, our telephone number is (402) 371-2520, and we maintain an Internet website located at www.supertelinc.com. Our annual reports on Form 10-K and quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports are available free of charge on our website as soon as reasonably practicable after they are filed with the SEC. We also make available the charters of our board committees and our Code of Business Conduct and Ethics on our website. Copies of these documents are available in print to any shareholder who requests them. Requests should be sent to Supertel Hospitality, Inc., 1800 West Pasewalk Avenue, Suite 200, P.O. Box 1448, Norfolk, Nebraska 68701, Attn: Corporate Secretary.

Item 1A. RISK FACTORS

Risks Related to Our Business

Failure to obtain adequate liquidity may cause us to dispose of assets at unfavorable prices, delay or default in paying our obligations, seek legal protection while attempting to reorganize or cease operations entirely.

On September 26, 2013, based on market conditions, pricing expectations, and after discussions with the underwriters, we withdrew and terminated our previously announced proposed public offering of 16,700,000 shares of common stock. The costs of this offering and its failure to be completed have had a severe impact on our liquidity. We are exploring other methods to satisfy our liquidity needs, but to date we have not been able to complete a transaction that will provide sufficient liquidity to satisfy our operating and capital needs for the next year. There can be no assurance that we will be able to obtain sufficient liquidity to continue to operate as we have in the past. Failure to obtain adequate liquidity may cause us to dispose of assets at unfavorable prices, delay or default in paying our obligations, seek legal protection while attempting to reorganize or cease operations entirely.

The economy has negatively impacted the hotel industry and our business, and we incurred losses in fiscal years 2013, 2012, 2011 and 2010.

A soft economy and apprehension among consumers have negatively impacted the hotel industry and our business and we incurred net losses of $1.4 million, $10.2 million, $17.5 million and $10.6 million for our 2013, 2012, 2011, and 2010 fiscal years, respectively.

In recent years, the slowing economy has caused a softening in business travel, especially among construction-related workers, a particularly strong guest group for many of our hotels. Accordingly, our financial results and growth could be harmed if the economic slowdown continues for a significant period or becomes worse.

Our returns depend on management of our hotels by third parties.

In order to qualify as a REIT, we cannot operate any hotel or participate in the decisions affecting the daily operations of any hotel. Under the REIT Modernization Act of 1999, REITs are permitted to lease their hotels to TRSs. However, a TRS, such as TRS Lessee, may not operate or manage the leased hotels and, therefore, must enter into management agreements with third-party eligible independent contractors to manage the hotels. Thus, an independent operator under a management agreement with TRS Lessee controls the daily operations of each of our hotels.

Under the terms of the management agreements between TRS Lessee and HMA, Strand, Kinseth, and Cherry Cove, our ability to participate in operating decisions regarding the hotels is limited. We depend on our management companies to adequately operate our hotels as provided in the management agreements. We do not have the authority to require any hotel to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel (for instance, setting room rates). Thus, even if we believe our hotels are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, revenue per available room and average daily rates, we may not be able to force HMA, Strand, Kinseth, or Cherry Cove to change their methods of operation of our hotels. We can only seek redress if a management company violates the terms of the management agreement with TRS Lessee, and then only to the extent of the remedies provided for under the terms of the applicable management agreement. If any of the foregoing occurs at franchised hotels, our relationship with the franchisors may be damaged, and we may be in breach of one or more of our franchise agreements. Additionally, in the event that we need to replace a management company, we may experience decreased occupancy and other significant disruptions at our hotels and in our operations generally.

Failure of the hotel industry to continue to improve or remain stable may adversely affect our ability to execute our business strategies, which, in turn, would adversely affect our ability to make distributions to our stockholders.

Our business strategy is focused in the hotel industry, and we cannot assure you that hotel industry fundamentals will continue to improve or remain stable. Economic slowdown and world events outside our control, such as terrorism, have adversely affected the hotel industry in the recent past and if these events reoccur, may adversely affect the industry in the future. In the event conditions in the hotel industry do not continue to improve or remain stable, our ability to execute our business strategies will be adversely affected, which, in turn, would adversely affect our ability to make distributions to our stockholders.

We face competition for the acquisition of hotels and we may not be successful in identifying or completing hotel acquisitions that meet our criteria, which may impede our growth.

One component of our business strategy is expansion through acquisitions, and we may not be successful in identifying or completing acquisitions that are consistent with our strategy, particularly in the current economy. We compete with institutional pension funds, private equity investors, REITs, hotel companies and others who are engaged in the acquisition of hotels. This competition for hotel investments may increase the price we pay for hotels and these competitors may succeed in acquiring those hotels that we seek to acquire. Furthermore, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater marketing and financial resources, may be willing to pay more or may have a more compatible operating philosophy. In addition, the number of entities competing for suitable hotels may increase in the future, which would increase demand for these hotels and the prices we must pay to acquire them. If we pay higher prices for hotels, our returns on investment and profitability may be reduced. Also, future acquisitions of hotels or hotel companies may not yield the returns we expect and may result in stockholder dilution.

Future acquisitions may not yield the returns expected, may result in disruptions to our business, may strain management resources, may not be efficiently integrated into operations, and may result in stockholder dilution.

Our business strategy may not ultimately be successful and may not provide positive returns on our investments. Acquisitions may cause disruptions in our operations and divert management's attention away from day-to-day operations. If the integration of our acquisitions into our management companies' operations is not accomplished as efficiently as planned, we will not achieve the expected operating results from the acquisitions. The issuance of equity securities in connection with any acquisition could be substantially dilutive to our stockholders.

A recession could have a material adverse effect on our results of operations.

The performance of the hotel industry usually follows the general economy. During the recession of 2008 and 2009, overall travel was reduced, which had a significant effect on our results of operations. Uncertainty in the strength and direction of the recovery and continued high unemployment have slowed the pace of the overall economic recovery. A stall in the economic recovery or a resurgent recession could have a material adverse effect on our results of operations.

Holders of the Series A preferred stock and Series B preferred stock will have the right to elect two directors due to our failure to pay preferred stock dividends if the dividends continue in arrears for certain periods of time; and while we are in arrears on preferred stock dividends, we are restricted in our ability to pay any dividend on or repurchase our common stock.

Commencing with dividends due on our preferred stock on December 31, 2013, we suspended payment of dividends on our Series A preferred stock, Series B preferred stock and Series C convertible preferred stock to preserve capital and improve liquidity.

Holders of the Series A preferred stock generally have no voting rights. However, if dividends on the Series A preferred stock are in arrears for six consecutive months or nine months (whether or not consecutive) in any twelve-month period, holders of the Series A Preferred Stock, voting together as a single class with all series of preferred stock for which like voting rights are exercisable, will be entitled to elect two directors.

Holders of the Series B preferred stock generally have no voting rights. However, if the dividends on the Series B Preferred stock are in arrears for six or more quarterly periods (whether or not consecutive), holders of the Series B Preferred Stock, voting together as a single class with all series of preferred stock for which like voting rights are exercisable, will be entitled to elect two directors.

If the right to elect two directors arises for the holders of either or both of the Series A preferred stock and the Series B preferred stock, the terms of such directors will end up to twelve months after all dividend arrearages have been paid. The right to elect two directors does not affect or impact the Real Estate Strategies L.P., a Bermuda Partnership ("RES") director designation rights.

Further, the Company cannot declare or pay a dividend on our common stock, so long as any shares of our Series A preferred stock, Series B preferred stock and Series C convertible preferred stock remain outstanding, unless all undeclared and unpaid dividends for all prior dividend periods have been paid or are contemporaneously declared and paid in full on our preferred stock. In addition, while we are in arrears in the payment of preferred stock dividends we may not redeem, purchase or acquire any shares of our common stock or other capital stock ranking junior to the preferred stock, other than for limited exceptions. These restrictions limit our ability to manage our capital resources generally and, specifically, to return capital to our common stockholders, and may adversely affect the value of an investment in our common stock.

We will likely seek to sell equity and/or debt securities to meet our need for additional cash, and we cannot assure you that such financing will be available and further, in connection with such sales our current shareholders could experience a material amount of dilution.

We will require additional cash resources due to current business conditions and any acquisitions we may decide to pursue. We will likely seek to sell additional equity and/or debt securities. We cannot assure you that the sale of such securities will be available in amounts or on terms acceptable to us, if at all. If our board determines to sell additional shares of common stock or other debt or equity securities, a material amount of dilution may cause the market price of the common stock to decline.

We may not be able to sell hotels on favorable terms.

We have sold 55 hotels since 2009. At December 31, 2013, we have 19 hotel properties held for sale. We may not be able to sell such hotels on favorable terms, and such hotels may be sold at a loss. As with acquisitions, we face competition for buyers of our hotel properties. Other sellers of hotels may have the financial resources to dispose of their hotels on unfavorable terms that we would be unable to accept. If we cannot find buyers for any

properties that are designated for sale, we will not be able to implement our disposition strategy. In the event that we cannot fully execute our disposition strategy or realize the benefits therefrom, we may not be able to satisfy our liquidity needs (including meeting our debt service obligations) and will not be able to fully execute our growth strategy.

The weak economy may adversely impact our current and future borrowings.

The Company's operating performance, as well as its liquidity position, has been and continues to be negatively affected by economic conditions, many of which are beyond our control. Given the deterioration and uncertainty in the economy and the Company's financial position, management believes that access to conventional sources of capital will be challenging. We may not be able to successfully extend, refinance or repay our debt due to a number of factors, including decreased property valuations, limited availability of credit, tightened lending standards and deteriorating economic conditions, which could make it more difficult for us to obtain future credit facilities or loans on terms similar to the terms of our current credit facilities and loans or to obtain long-term financing on favorable terms or at all. If our plans to meet our liquidity requirements in the weak economy are not successful, we may violate our loan covenants. If we violate covenants in our debt agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on favorable terms, if at all.

Our plans for meeting our short-term liquidity needs include the sale of hotels and we may not be able to timely sell hotels to meet our liquidity needs.

In the near-term, our cash flow from operations is not projected to be sufficient to meet all of our liquidity needs. In response, we have identified non-core assets in our portfolio to be liquidated. We cannot predict whether we will be able to find buyers or sell any of these hotels at an acceptable price or on reasonable terms or whether potential buyers will be able to secure financing. We also cannot predict the length of time needed to find a willing buyer and to close the sale of a hotel. Because investments in hotels are relatively illiquid, our ability to meet our liquidity needs through the sale of hotels may be limited. If we are unable to generate cash from the sale of hotels and other sources, we may have liquidity-related capital shortfalls and will be exposed to default risks.

Our shares of common stock, Series A preferred stock and Series B preferred stock may be delisted from the NASDAQ Global Market if the closing bid price for our shares of commons stock is not maintained at $1.00 per share or higher.

NASDAQ imposes, among other requirements, listing maintenance standards as well as minimum bid and public float requirements. The price of the shares of our common stock must trade at or above $1.00 to comply with NASDAQ's minimum bid requirement for continued listing on the NASDAQ Global Market.

If the closing price of our shares fails to meet NASDAQ's minimum bid price requirement for 30 consecutive days, or if we otherwise fail to meet all other applicable requirements of the NASDAQ Global Market, NASDAQ may make a determination to delist our shares of common stock. If our common stock is delisted, our Series A preferred stock and Series B preferred stock would also be delisted. We have twice previously failed to meet the NASDAQ's minimum bid price requirement for our common stock, but in each instance regained compliance during the permitted grace period. We previously accomplished a reverse split of our common stock, which allowed us to meet the minimum bid requirement. Due to NASDAQ's requirement for at least a minimum number of publicly held shares, we may not be able in the future to use a reverse stock split to meet NASDAQ's minimum bid price requirement. The delisting of our common stock from trading on NASDAQ could have a significant negative effect on the market for, and liquidity and value of, our common stock.

We cannot assure you that we will qualify, or remain qualified, as a REIT.

We currently are taxed as a REIT, and we expect to qualify as a REIT for future taxable years, but we cannot assure you that we will remain qualified as a REIT. If we fail to remain qualified as a REIT, all of our earnings will be subject to federal income taxation, which will reduce the amount of cash available for distribution to our stockholders, and we will not be required to distribute our income to our stockholders.

Current economic conditions have adversely affected the valuation of our hotels which may result in further impairment charges on our properties.

We analyze our assets for impairment when events or circumstances occur that indicate an asset's carrying value may not be recoverable. For impaired assets, we record an impairment charge equal to the excess of the property's carrying value over its fair value. Our operating results for 2013 and 2012 included $7.1 million and $10.2 million, respectively, of impairment charges related to our hotels sold, held for sale, and held for use. As a result of continued economic weakness, we may incur additional impairment charges, which will negatively affect our results of operations. We can provide no assurance that any impairment loss recognized would not be material to our results of operations.

Arranging financing for acquisitions and dispositions of hotels is difficult because we are not in a financially strong position.

The capital markets have improved, and although we will continue to carefully evaluate and discuss both buying and selling opportunities, debt and equity financing could be a challenge to obtain for acquisitions and dispositions of hotels, due to the Company's financial position.

Our TRS lessee structure subjects us to the risk of increased operating expenses.

Our hotel management agreements require us to bear the operating risks of our hotel properties. Our operating risks include not only changes in hotel revenues and changes in TRS Lessee's ability to pay the rent due under the leases, but also increased operating expenses, including, among other things:

- wage and benefit costs;
- repair and maintenance expenses;
- energy costs;
- property taxes;
- insurance costs; and
- other operating expenses.

Any decreases in hotel revenues or increases in operating expenses could have a material adverse effect on our earnings and cash flow.

Our debt service obligations could adversely affect our operating results, may require us to liquidate our properties and limit our ability to make distributions to our stockholders.

We seek to maintain a total stabilized debt level of no more than 60% of our aggregate property investment at cost. We, however, may change or eliminate this target at any time without the approval of our stockholders. We believe our debt to the market value of our properties is too high. In the future, we and our subsidiaries may incur substantial additional debt, including secured debt. Incurring such debt could subject us to many risks, including the risks that:

- our cash flow from operations will be insufficient to make required payment of principal and interest;
- we may be more vulnerable to adverse economic and industry conditions;
- we may be required to dedicate a substantial portion of our cash flow from operations to the repayment of our debt, thereby reducing the cash available for distribution to our stockholders, funds available for operations and capital expenditures, future investment opportunities or other purposes;

- the terms of any refinancing may not be as favorable as the terms of the debt being refinanced; and
- the use of leverage could adversely affect our stock price and the ability to make distributions to our stockholders.

If we violate covenants in our indebtedness agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on favorable terms, if at all. Our Great Western Bank and GE Franchise Finance Commercial LLC ("GE") facilities contain cross-default provisions which would allow Great Western Bank and GE to declare a default and accelerate our indebtedness to them if we default on certain other loans, and such default would permit that lender to accelerate our indebtedness under any such loan.

Approximately $31.5 million of the Company's debt is currently scheduled to mature in 2014 pursuant to the notes and mortgages evidencing such debt. Because we do not expect to have sufficient funds from operating activities to repay our debt at maturity, we intend to repay a portion of this debt with net proceeds from the sale of hotels and refinance the balance of this debt through additional debt financing, private or public offerings of debt securities, or additional equity financings. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates on refinancings, increases in interest expense could adversely affect our cash flow, and, consequently, our cash available for distribution to our stockholders. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of our hotel properties on disadvantageous terms, potentially resulting in losses adversely affecting cash flow from operating activities. In addition, we may place mortgages on our hotel properties to secure our lines of credit or other debt. To the extent we cannot meet these debt service obligations, we risk losing some or all of those properties to foreclosure. Additionally, our debt covenants could impair our planned strategies and, if violated, result in a default of our debt obligations.

Higher interest rates could increase debt service requirements on our floating rate debt and could reduce the amounts available for distribution to our stockholders, as well as reduce funds available for our operations, future investment opportunities or other purposes. At January 31, 2014, approximately 8.5% of our debt had floating rates. We may obtain in the future one or more forms of interest rate protection—in the form of swap agreements, interest rate cap contracts or similar agreements—to "hedge" against the possible negative effects of interest rate fluctuations. However, we cannot assure you that any hedging will adequately mitigate the adverse effects of interest rate increases or that counterparties under these agreements will honor their obligations. In addition, we may be subject to risks of default by hedging counterparties. Adverse economic conditions could also cause the terms on which we borrow to be unfavorable.

Our ability to make distributions on our common and preferred stock is subject to fluctuations in our financial performance, operating results and capital improvement requirements.

As a REIT, we generally are required to distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction, to our stockholders. Downturns in our operating results and financial performance or unanticipated capital improvements to our hotel properties may affect our ability to declare or pay distributions to our stockholders. Further, we may not generate sufficient cash in order to fund distributions to our stockholders, which may require us to sell assets or borrow money to satisfy the REIT distribution requirements.

Among the factors which could adversely affect our results of operations and our distributions to stockholders are reduced net operating profits or operating losses, increased debt service requirements and capital expenditures at our hotel properties. Among the factors which could reduce our net operating profits are decreases in hotel property revenues and increases in hotel property operating expenses. Hotel property revenue can decrease for a number of reasons, including increased competition from a new supply of rooms and decreased demand for rooms. These factors can reduce both occupancy and room rates at our hotel properties.

The timing and amount of distributions are in the sole discretion of our Board of Directors, which will consider, among other factors, our actual results of operations, debt service requirements, capital expenditure requirements for our properties and our operating expenses. We suspended our quarterly common stock dividend in March 2009 and our monthly and quarterly preferred stock dividends at the end of 2013 to preserve our capital and improve liquidity.

We have restrictive debt covenants that could adversely affect our ability to run our business.

We file quarterly loan compliance certificates with certain of our lenders. Weakness in the economy, and the lodging industry at large, may result in our non-compliance with our loan covenants. Such non-compliance with our loan covenants may result in our lenders restricting the use of our operating funds for capital improvements to our existing hotels, including improvements required by our franchise agreements or calling the debt. We cannot assure you that our loan covenants will permit us to maintain our business strategy.

Our restrictive debt covenants may jeopardize our tax status as a REIT.

To maintain our REIT status, we generally must distribute at least 90% of our REIT taxable income to our stockholders annually. In addition, we are subject to a 4% non-deductible excise tax if the actual amount distributed to shareholders in a calendar year is less than a minimum amount specified under the federal income tax laws. In the event we do not comply with our debt service obligations, our lenders may limit our ability to make distributions to our shareholders, which could adversely affect our REIT status.

Operating our hotels under franchise agreements could adversely affect distributions to our shareholders.

Sixty-one of our hotels operate under third party franchise agreements and we are subject to the risks of concentrating our hotel investments in several franchise brands. These risks include reductions in business following negative publicity related to any one of our particular brands. Risks associated with our brands could adversely affect our lease revenues and the amounts available for distribution to our shareholders.

The maintenance of the franchise licenses for our hotels is subject to our franchisors' operating standards and other terms and conditions. Our franchisors periodically inspect our hotels to ensure that we and TRS Lessee follow their standards. Failure to maintain these standards or other terms and conditions could result in a franchise license being canceled. As a condition of our continued holding of a franchise license, a franchisor could possibly require us to make capital expenditures, even if we do not believe the capital improvements are necessary or desirable or will result in an acceptable return on our investment. Nonetheless, we may risk losing a franchise license if we do not make franchisor-required capital expenditures.

If a franchisor terminates the franchise license, we may try either to obtain a suitable replacement franchise or to operate the hotel without a franchise license. The loss of a franchise license could materially and adversely affect the operations or the underlying value of the hotel because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. Loss of a franchise license for several of our hotels could materially and adversely affect our revenues. This loss of revenues could, therefore, also adversely affect our cash available for distribution to shareholders.

Our inability to obtain financing could limit our growth.

We are required to distribute at least 90% of our REIT taxable income to our shareholders each year in order to continue to qualify as a REIT. Our debt service obligations and distribution requirements limit our ability to fund capital expenditures, acquisitions and hotel development through retained earnings. Our ability to grow through acquisitions or development of hotels will be limited if we cannot obtain debt or equity financing.

Neither our articles of incorporation nor our bylaws limit the amount of debt we can incur. Our Board of Directors can implement and modify a debt limitation policy without shareholder approval. We cannot assure you that we will be able to obtain additional equity financing or debt financing or that we will be able to obtain any financing on favorable terms.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on a co-venturer's financial condition and disputes between us and our co-venturers.

We may co-invest in the future with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. In such event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments in partnerships, joint ventures, or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the

possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Investments in joint ventures may require that we provide the joint venture entity with the right of first offer or right of first refusal to acquire any new property we consider acquiring directly. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business. Consequently, actions by, or disputes with, partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. We may also, in certain circumstances, be liable for the actions of our third-party partners or co-venturers. For example, we may be required to guarantee indebtedness incurred by a partnership, joint venture or other entity for the purchase or renovation of a hotel property. Such a guarantee may be on a joint and several basis with our partner or co-venturer in which case we may be liable in the event such party defaults on its guaranty obligation.

Our business could be disrupted if we need to find a new manager upon termination of an existing management agreement.

If a hotel manager that we engage fails to materially comply with the terms of the management agreement, we have the right to terminate the management agreement. Upon termination, we would have to find another manager to manage the properties. We cannot operate the hotels directly due to federal income tax restrictions. We cannot assure you that we would be able to find another manager or that, if another manager were found, we would be able to enter into a new management agreement favorable to us. In addition, any new manager may operate other hotels that may compete with our hotels or divert attention away from the management of our hotels and may not be successful in managing our hotels. Our franchisors may require us to make substantial capital improvements to the hotels prior to their approval, if required, of a new manager. There would be disruption during any change of hotel management that could adversely affect our operating results and reduce our distributions to our shareholders.

Geographic concentration of our hotels will make our business vulnerable to economic downturns in the Midwestern and Eastern United States.

Most of our hotels are located in the Midwestern and Eastern United States. Economic conditions in the Midwestern and Eastern United States will significantly affect our revenues and the value of our hotels. Business layoffs or downsizing, industry slowdowns, changing demographics and other similar factors may adversely affect the economic climate in these areas. For example, the federal government shutdown in October, 2013 impacted the operating results of our hotels in Virginia, Pennsylvania, and Maryland. Any resulting oversupply or reduced demand for hotels in the Midwestern and Eastern United States and our markets in particular would therefore have a disproportionate negative impact on our revenues and limit our ability to make distributions to stockholders.

Unanticipated expenses and insufficient demand for hotels we acquire in new geographic markets could adversely affect our profitability and our ability to make distributions to our stockholders.

We may develop or acquire hotels in geographic areas in which our management may have little or no operating experience and in which potential customers may not be familiar with our franchise brands. As a result, we may have to incur costs relating to the opening, operation and promotion of those new hotel properties that are substantially greater than those incurred in other areas. These hotels may attract fewer customers than our existing hotels, while at the same time, we may incur substantial additional costs with these new hotel properties. Unanticipated expenses and insufficient demand at a new hotel property, therefore, could adversely affect our profitability and our ability to make distributions to our stockholders.

An industry downturn could adversely affect our results of operations.

If room supply outpaces demand, our operating margins may deteriorate and we may be unable to execute our business plan, which could adversely affect our results of operation. In addition, if this trend continues, we may be unable to continue to meet our debt service obligations or to obtain necessary additional financing.

Our borrowing costs are sensitive to fluctuations in interest rates.

Higher interest rates could increase debt service requirements on our floating rate debt including any borrowings under our credit facilities or loans. Any borrowings under our credit facilities or loans having floating interest rates may increase due to market conditions. Adverse economic conditions could also cause the terms on which we borrow to be unfavorable. We could be required to liquidate one or more of our hotel investments at times which may not permit us to receive an attractive return on our investments in order to meet our debt service obligations.

We depend on key personnel.

We depend on the efforts and expertise of our executive officers to drive our day-to-day operations and strategic business direction. The loss of any of their services could have an adverse effect on our operations. Our ability to replace key individuals may be difficult because of the limited number of individuals with the breadth of skills and experience needed to excel in the hotel industry. There can be no assurance that we would be able to hire, train, retain or motivate such individuals.

Risks Related to the Hotel Industry

Our ability to make distributions to our shareholders may be affected by factors in the hotel industry that are beyond our control.

Operating Risks

Our hotels are subject to various operating risks found throughout the hotel industry. Many of these risks are beyond our control. These include, among other things, the following:

- competitors with substantially greater marketing and financial resources than us;
- over-building in our markets, which adversely affects occupancy and revenues at our hotels;
- dependence on business and commercial travelers and tourism;
- terrorist incidents which may deter travel;
- increases in hotel operating costs, energy costs, airline fares and other expenses, which may affect travel patterns and reduce the number of business and commercial travelers and tourists; and
- adverse effects of general, regional and local economic conditions.

These factors could adversely affect the amount of rent we receive from leasing our hotels and reduce the net operating profits of TRS Lessee, which in turn could adversely affect our ability to make distributions to our shareholders. Decreases in room revenues of our hotels will result in reduced operating profits for TRS Lessee and decreased lease revenues to our company under our current percentage leases with TRS Lessee.

Competition and Financing for Acquisitions

We compete for investment opportunities with entities that have substantially greater financial resources than we do. These entities generally may be able to accept more risk than we can manage wisely. This competition may generally limit the number of suitable investment opportunities offered to us. This competition may also increase the bargaining power of property owners seeking to sell to us, making it more difficult for us to acquire new properties on attractive terms. Additionally, current economic conditions present difficult challenges to obtaining financing for acquisitions.

Seasonality of Hotel Business

The hotel industry is seasonal in nature. Generally, occupancy rates, hotel revenues, and operating results are greater in the second and third quarters than in the first and fourth quarters, with the exception of our hotel located in Florida. This seasonality can be expected to cause quarterly fluctuations in our lease revenues. Our quarterly earnings may be adversely affected by factors outside our control, including bad weather conditions and poor economic factors. As a result, we may have to enter into short-term borrowings in our first and fourth quarters in order to offset these fluctuations in revenues.

Investment Concentration in Particular Segments of Single Industry

Our entire business is hotel-related. Although we intend to invest in upper midscale and upscale properties in the future, our hotel portfolio is concentrated in midscale and economy hotel properties. Therefore, a downturn in the hotel industry in general and the economy and midscale segments in particular will have a material adverse effect on our revenues and amounts available for distribution to our shareholders.

Capital Expenditures

Our hotels have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. The franchisors of our hotels also require periodic capital improvements as a condition of keeping the franchise licenses. The costs of all of these capital improvements could adversely affect our financial condition and reduce the amounts available for distribution to our shareholders. These renovations may give rise to the following risks:

- possible environmental problems;
- construction cost overruns and delays;
- a possible shortage of available cash to fund renovations and the related possibility that financing for these renovations may not be available to us on affordable terms; and
- uncertainties as to market demand or a loss of market demand after renovations have begun.

Recent economic trends, the military action in Afghanistan and Iraq and prospects for future terrorist acts and military action have adversely affected the hotel industry generally, and similar future events could adversely affect the industry in the future.

Terrorist attacks and the after-effects (including the prospects for more terror attacks in the United States and abroad), combined with economic trends and the U.S. led military action in Afghanistan and Iraq, substantially reduced business and leisure travel and lodging industry RevPAR generally. We cannot predict the extent to which these factors will directly or indirectly impact your investment in our common stock, the lodging industry or our operating results in the future. Declining RevPAR at our hotels would reduce our net income and restrict our ability to fund capital improvements at our hotels and our ability to make distributions to stockholders necessary to maintain our status as a REIT. Additional terrorist attacks, acts of war or similar events could have further material adverse effects on the markets on which shares of our stock will trade, the lodging industry in general and our operations in particular.

Uninsured and underinsured losses and our ability to satisfy our obligations could adversely affect our operating results and our ability to make distributions to our stockholders.

We intend to maintain comprehensive insurance on each of our hotel properties, including liability, fire and extended coverage, of the type and amount we believe are customarily obtained for or by hotel owners. There are no assurances that current coverage will continue to be available at reasonable rates. Various types of catastrophic losses, like earthquakes and floods, losses from foreign or domestic terrorist activities, may not be insurable or may not be economically insurable. Initially, we do not expect to obtain terrorism insurance on our hotel properties

because it is costly. Lenders may require such insurance and our failure to obtain such insurance could constitute a default under loan agreements. Depending on our access to capital, liquidity and the value of the properties securing the affected loan in relation to the balance of the loan, a default could reduce our net income and limit our ability to obtain future financing.

In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenue from the hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed property.

The hotel business is capital intensive, and our inability to obtain financing could limit our growth, and if we do obtain it, it may be more expensive which could still limit our growth.

Our hotel properties will require periodic capital expenditures and renovation to remain competitive. Acquisitions or development of additional hotel properties will require significant capital expenditures. See our risk factors above concerning the impact of the weakening economy on capital markets, the hotel industry and borrowing. The lenders under some of the mortgage debt that we will assume will require us to set aside varying amounts each year for capital improvements at our hotels. We may not be able to fund capital improvements or acquisitions solely from cash provided from our operating activities because we must distribute at least 90% of our REIT taxable income, excluding net capital gains, each year to maintain our REIT tax status. Consequently, we rely upon the availability of debt or equity capital to fund hotel acquisitions and improvements. As a result, our ability to fund capital expenditures, acquisitions or hotel development through retained earnings is very limited. Our ability to grow through acquisitions or development of hotels will be limited if we cannot obtain satisfactory debt or equity financing which will depend on market conditions. Neither our charter nor our bylaws limits the amount of debt that we can incur. However, we cannot assure you that we will be able to obtain additional equity or debt financing or that we will be able to obtain such financing on favorable terms.

Noncompliance with governmental regulations could adversely affect our operating results.

Environmental Matters

Our hotel properties are subject to various federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require the owner of a contaminated property to clean up the property, even if the owner did not know of or was not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated. In addition to the costs of cleanup, contamination can affect the value of a property and, therefore, an owner’s ability to borrow funds using the property as collateral.

Under these environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, like a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment. Furthermore, court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos while staying in a hotel may seek to recover damages if he suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities at a property. One example is laws that require a business using chemicals to manage them carefully and to notify local officials that the chemicals are being used.

Our company could be responsible for the costs discussed above if it found itself in one or more of these situations. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could affect the funds available for distribution to our shareholders. To determine whether any costs of this nature might be required, we commissioned Phase I environmental site assessments, or “ESAs”, before we acquired our hotels, and in 2002, commissioned new ESAs for 32 of our hotels in conjunction with a refinancing of the debt obligations of those hotels. These studies typically included a review of historical information and a site visit, but not soil or groundwater testing. We obtained the ESAs to help us identify whether we might be responsible for cleanup costs or other costs in connection with our hotels. The ESAs on our

hotels did not reveal any environmental conditions that are likely to have a material adverse effect on our business, assets, results of operations or liquidity. However, ESAs do not always identify all potential problems or environmental liabilities. Consequently, we may have material environmental liabilities of which we are unaware.

Americans with Disabilities Act and Other Changes in Governmental Rules and Regulations

Under the Americans with Disabilities Act of 1990, or ADA, all public accommodations must meet various federal requirements related to access and use by disabled persons. Compliance with the ADA's requirements could require removal of access barriers and non-compliance could result in the U.S. government imposing fines or in private litigants obtaining damages. If we were required to make substantial modifications to our hotels, whether to comply with the ADA or other changes in governmental rules and regulations, our ability to make distributions to our shareholders and meet our other obligations could be adversely affected.

General Risks Related to the Real Estate Industry

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more hotel properties or investments in our portfolio in response to changing economic, financial and investment conditions may be limited. The real estate market is affected by many factors that are beyond our control, including:

- adverse changes in international, national, regional and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of God, including earthquakes, floods and other natural disasters and acts of war or terrorism, including the consequences of terrorist acts such as those that occurred on September 11, 2001, which may result in uninsured losses.

We cannot predict whether we will be able to sell any hotel property or investment for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a hotel property or loan.

We may be required to expend funds to correct defects or to make improvements before a hotel property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a hotel property, we may agree to lock-out provisions that materially restrict us from selling that hotel property for a period of time or impose other restrictions, such as limitation on the amount of debt that can be placed or repaid on that hotel property. These facts and any others that would impede our ability to respond to adverse changes in the performance of our hotel properties could have a material adverse effect on our operating results and financial condition, as well as our ability to make distributions to stockholders.

Our hotels may contain or develop harmful environmental challenges, such as mold or bed bugs, which could lead to liability for adverse health effects and costs of remediating the problem.

Bed bug infestation can cause adverse health effects, including skin rashes, psychological effects and allergic symptoms. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as

exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or bed bugs at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or remove the bed bugs from the affected property, which would reduce our cash available for distribution. In addition, the presence of significant mold or bed bugs could expose us to liability from our guests, employees or our management companies and others if property damage or health concerns arise.

Risks Related to our Organization and Structure

RES, our largest shareholder, holds significant voting power and has the right to designate directors, which provides the shareholder with significant power to influence our business and affairs.

RES holds 34% of the combined voting power of all Supertel voting stock. Pursuant to an investor rights and conversion agreement we entered into with RES and IRSA Inversiones y Representaciones Sociedad Anonima (“IRSA”) in February 2012, RES has a contractual preemptive right, but not the obligation, to purchase up to its pro rata share (based on its ownership on a fully diluted basis) of any equity securities we offer in future offerings on the same terms as other investors, provided that such purchase would not cause RES to exceed its beneficial ownership limitation. RES has the right to appoint four directors to our board of directors pursuant to the directors designation agreement that RES has entered into with us in February 2012. As long as RES has the right to designate two or more directors, the merger, consolidation, liquidation or sale of substantially all of the assets of the Company or the sale by the Company of common stock or securities convertible into common stock equal to 20% or more of the outstanding common stock or voting stock requires the approval of RES and IRSA.

By virtue of its voting power and board designation rights, its preemptive right to purchase additional equity securities in future stock offerings and approval rights, RES has the power to significantly influence our business and affairs and the outcome of matters required to be submitted to shareholders for approval, including the election of our directors, amendments to our charter, mergers or sales of assets. RES’s influence over our business and affairs may not be consistent with the interests of some or all of our shareholders and might negatively affect the market price of our common stock.

Our failure to qualify as a REIT under the federal tax laws would result in adverse tax consequences.

The federal income tax laws governing REITs are complex.

We currently operate as a REIT under the federal income tax laws. The REIT qualification requirements are extremely complex, however, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we would be successful in operating so that we can qualify as a REIT. At any time, new laws, interpretations, or court decisions may change the federal tax laws or the federal income tax consequences of our qualification as a REIT. We have not applied for or obtained rulings from the Internal Revenue Service that we will qualify as a REIT.

Failure to qualify as a REIT would subject us to federal income tax.

If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income. We might need to borrow money or sell assets in order to pay any such tax. If we cease to be a REIT, we no longer would be required to distribute most of our taxable income to our stockholders. Unless we were entitled to relief under certain federal income tax laws, we could not re-elect REIT status during the four calendar years after the year in which we failed to qualify as a REIT.

Failure to make required distributions would subject us to tax.

In order to qualify as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction, each year to our stockholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% non-deductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. As a result, for example, of differences between cash flow and the accrual of income and expenses for tax purposes, or of nondeductible expenditures, our REIT taxable income in any given year

could exceed our cash available for distribution. In addition, to the extent we may retain earnings of TRS Lessee in those subsidiaries, such amount of cash would not be available for distribution to our stockholders to satisfy the 90% distribution requirement. Accordingly, we may be required to borrow money or sell assets to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the distribution requirement and to avoid federal corporate income tax and the 4% non-deductible excise tax in a particular year.

The formation of TRS Lessee increases our overall tax liability.

TRS Lessee is subject to federal and state income tax on its taxable income, which in the case of TRS Lessee currently consists and generally will continue to consist of revenues from the hotel properties leased by TRS Lessee, net of the operating expenses for such properties and rent payments to us. Accordingly, although our ownership of TRS Lessee allows us to participate in the operating income from our hotel properties in addition to receiving rent, that operating income is fully subject to income tax. Such taxes could be substantial. The after-tax net income of TRS Lessee is available for distribution to us.

We incur a 100% excise tax on transactions with TRS Lessee that are not conducted on an arm's-length basis. For example, to the extent that the rent paid by TRS Lessee exceeds an arm's-length rental amount, such amount potentially is subject to the excise tax. We intend that all transactions between us and TRS Lessee will continue to be conducted on an arm's-length basis and, therefore, that the rent paid by TRS Lessee to us will not be subject to the excise tax.

Complying with REIT requirements may cause us to forego attractive opportunities that could otherwise generate strong risk-adjusted returns and instead pursue less attractive opportunities, or none at all.

To continue to qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of generating strong risk-adjusted returns on invested capital for our stockholders.

Complying with REIT requirements may force us to liquidate otherwise attractive investments, which could result in an overall loss on our investments.

To continue to qualify as a REIT, we must also ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total securities can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences. If we fail to comply with these requirements at the end of any calendar quarter, we may be able to preserve our REIT status by benefiting from certain statutory relief provisions. Except with respect to a de minimis failure of the 5% asset test or the 10% vote or value test, we can maintain our REIT status only if the failure was due to reasonable cause and not to willful neglect. In that case, we will be required to dispose of the assets causing the failure within six months after the last day of the quarter in which we identified the failure, and we will be required to pay an additional tax of the greater of $50,000 or the product of the highest applicable tax rate (currently 35%) multiplied by the net income generated on those assets. As a result, we may be required to liquidate otherwise attractive investments.

Taxation of dividend income could make our common stock less attractive to investors and reduce the market price of our common stock.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect us or you as a stockholder. In 2013, the maximum tax rate on dividend income for certain taxpayers was raised to 20% for qualified dividends and 39.6% on non-qualified dividends (plus a 3.8% net investment income tax). This reduced substantially the so-called "double taxation" (that is, taxation at both the corporate and

stockholder levels) that has generally applied to corporations that are not taxed as REITs. Generally, dividends from REITs do not qualify for the dividend tax reduction because, as a result of the dividends paid deduction to which REITs are entitled, REITs generally do not pay corporate level tax on income that they distribute to stockholders. As a result of that legislation, individual, trust, and estate investors could view stocks of non-REIT corporations as more attractive relative to shares of REITs than was the case previously because the dividends paid by non-REIT corporations are subject to lower tax rates for such investors.

Provisions of our charter and substantial voting power held by a shareholder may limit the ability of a third party to acquire control of our company.

In order to maintain our REIT qualification, no more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the federal income tax laws to include various kinds of entities) during the last half of any taxable year. Our articles of incorporation contain the ownership limitation, which prohibits both direct and indirect ownership of more than 9.9% of the outstanding shares of our common stock or 9.9% of any series of our preferred stock by any person, subject to several exceptions. Generally, any shares of our capital stock owned by affiliated owners will be added together for purposes of the ownership limitation.

Our articles of incorporation permit our board, in its sole discretion, to exempt a person from the 9.9% ownership limitation if the person provides representations and undertakings that enable our board to determine that granting the exemption would not result in the loss of our REIT qualification. Under the Internal Revenue Service rules, REIT shares owned by certain entities are considered owned proportionately by owners of the entities for REIT qualification purposes. RES provided a letter at the time of the issuance of the Series C preferred stock and warrants with representations and undertakings that permitted our board to grant such an exemption, including a representation that no individual will own 9.9% or more of any class of our stock as a result of the acquisition of the Series C preferred stock and warrants. The stock ownership by RES, which was permitted with our board's approval, represents 34% of the voting power of the our stock entitled to vote and such substantial voting power may limit the ability of a third party to acquire control of our company.

These ownership limitations may prevent an acquisition of control of our company by a third party without our board of directors' approval, even if our stockholders believe the change of control is in their best interests. Our charter authorizes our board of directors to issue shares of common stock and shares of preferred stock, and to set the preferences, rights and other terms of the preferred stock. Furthermore, our board of directors may, without any action by the stockholders, amend our charter from time to time to increase or decrease the aggregate number of shares of stock of any class or series of preferred stock that we have authority to issue. Issuances of additional shares of stock may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium to the market price of our common stock or otherwise be in our stockholders' best interests.

Our ownership limitation may prevent you from engaging in certain transfers of our capital stock.

If anyone transfers shares in a way that would violate the ownership limitation described above or prevent us from continuing to qualify as a REIT under the federal income tax laws, we will consider the transfer to be null and void from the outset, and the intended transferee of those shares will be deemed never to have owned the shares. Those shares instead will be transferred to a trust for the benefit of a charitable beneficiary and will be either redeemed by our company or sold to a person whose ownership of the shares will not violate the ownership limitation. Anyone who acquires shares in violation of the ownership limitation or the other restrictions on transfer in our articles of incorporation bears the risk that he will suffer a financial loss when the shares are redeemed or sold if the market price of our stock falls between the date of purchase and the date of redemption or sale.

We may be subject to the 100% prohibited transaction tax on the gain recognized on the hotels we sold.

A REIT will incur a 100% tax on the net income derived from any sale or other disposition of property that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. We undertook specific disposition programs beginning in 2001 (that included the sale of 23 hotels through December 31, 2004) and 2008 (that included the sale of 57 hotels through December 31, 2013). We held the disposed hotels for an average period of 11.6 years and did not acquire the hotels for purposes of resale. We believe that such sales are not prohibited

transactions. However, if the IRS would successfully assert that we held such hotels primarily for sale in the ordinary course of our business, the gain from such sales could be subject to a 100% prohibited transaction tax.

The ability of our board of directors to change our major corporate policies may not be in your interest.

Our board of directors determines our major corporate policies, including our acquisition, financing, growth, operations and distribution policies. Our board may amend or revise these and other policies from time to time without the vote or consent of our stockholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our Company headquarters is located in Norfolk, Nebraska, with additional office space in Omaha, Nebraska. The following table sets forth certain information with respect to the hotels owned by us as of December 31, 2013:

Location	Rooms
Arkansas	
Batesville, Super 8	49
Florida	
Key Largo, Key West Inns	40
Georgia	
Atlanta, Savannah Suites	164
Augusta, Savannah Suites	172
Chamblee, Savannah Suites	120
Columbus, Super 8	74
Jonesboro, Savannah Suites	172
Savannah, Savannah Suites	160
Stone Mountain, Savannah Suites	140
Idaho	
Boise, Super 8	108
Indiana	
Fort Wayne, Comfort Suites	127
Lafayette, Comfort Suites	62
Marion, Comfort Suites	62
South Bend, Comfort Suites	135
Warsaw, Comfort Inn & Suites	71
Terre Haute, Super 8	117
Iowa	
Burlington, Super 8	62
Clarinda, Super 8	40
Creston, Super 8	121
Creston, Supertel Inn	41
Iowa City, Super 8	84
Keokuk, Super 8	61
Mt. Pleasant, Super 8	55
Storm Lake, Super 8	59
Kansas	
Hays, Super 8	76
Manhattan, Super 8	85
Pittsburg, Super 8	64
Kentucky	
Ashland, Days Inn	63
Brooks, Baymont Inn	65
Danville, Quality Inn	63
Glasgow, Comfort Inn	60
Glasgow, Days Inn	58
Harlan, Comfort Inn	61
Louisiana	
Bossier City, Days Inn	176
Shreveport, Days Inn	148
Maryland	
Dowell, Hilton Garden Inn	100
Solomons, Comfort Inn	60
Missouri	
Kirksville, Super 8	61
Moberly, Super 8	60
West Plains, Super 8	49
Montana	
Billings, Super 8	106
Nebraska	
Lincoln (Cornhusker), Super 8	133
Omaha, Sleep Inn	90
Norfolk, Super 8	64
O'Neill, Super 8	72
Omaha ('M' Street), Super 8	116
Omaha (West Dodge), Super 8	101
North Carolina	
Fayetteville, Rodeway Inn	120
Shelby, Comfort Inn	76
Pennsylvania	
Chambersburg, Comfort Inn	63
New Castle, Comfort Inn	79
South Carolina	
Greenville, Savannah Suites	170
South Dakota	
Sioux Falls (Airport), Days Inn	86
Sioux Falls (Empire), Days Inn	79
Tennessee	
Cleveland, Clarion	59
Virginia	
Alexandria, Comfort Inn	150
Alexandria, Days Inn	200
Culpeper, Comfort Inn	49
Farmville, Comfort Inn	51
Farmville, Days Inn	59
Rocky Mount, Comfort Inn	61
West Virginia	
Morgantown, Comfort Inn	80
Princeton, Comfort Inn	51
Wisconsin	
Green Bay, Super 8	83
Menomonie, Super 8	81
Portage, Super 8	61
Shawano, Super 8	55
Sheboygan, Quality Inn	59
Tomah, Super 8	65
Total	6,064

Additional property information is found in Item 8 Schedule III of this Annual Report on Form 10-K.

Item 3. Legal Proceedings

Litigation

Various claims and legal proceedings arise in the ordinary course of business and may be pending against the Company and its properties. Based upon the information available, the Company believes that the resolution of any of these claims and legal proceedings should not have a material adverse affect on its consolidated financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Company as of March 12, 2014

The following are executive officers of the Company as of March 15, 2014:

Kelly A. Walters, *Director, President and Chief Executive Officer*. Mr. Walters joined the Company and became President and Chief Executive Officer on April 14, 2009 as the successor to Paul Schulte, the firm's co-founder and then president. Mr. Walters, age 53, is a former Senior Vice President for North Dakota-based Investors Real Estate Trust (IRET), a self-advised equity real estate investment trust. Prior to IRET, he was Senior Vice President and Chief Investment Officer of Omaha based Magnum Resources, Inc., a privately held real estate investment and operating company. Preceding Magnum Resources, Walters was an officer and senior portfolio manager at Brown Brothers Harriman & Company in Chicago. He also held investment positions with Peter Kiewit Sons' Inc. Mr. Walters is currently a director of Bridges Investment Fund, Inc., a publicly traded Mutual Fund. He holds a B.S.B.A. degree in banking and finance from the University of Nebraska at Omaha and an EMBA from the University of Nebraska.

Corrine L. Scarpello, *Senior Vice President and Chief Financial Officer*. Ms. Scarpello became Chief Financial Officer of the Company on August 31, 2009. She joined the Company in November 2005 having worked for a year as a consultant for the Company and its management company. Ms. Scarpello, age 59, previously worked for Mutual of Omaha for 17 years, serving as the Vice President of Accounting and Administration for a subsidiary and as Manager in their mergers and acquisitions department. Ms. Scarpello also has accounting and auditing experience with PricewaterhouseCoopers (formerly Coopers and Lybrand) and is a CPA. Ms. Scarpello is currently a director of Nature Technology Corp., a biotech company. Ms. Scarpello is a graduate of the University of Nebraska at Omaha.

Patrick E. Beans*, Senior Vice President and Treasurer.* Mr. Beans joined the Company on January 21, 2013 as an assistant treasurer and was named Senior Vice President, Treasurer on March 13, 2013. Mr. Beans, age 57, previously served with National Research Corporation for 18 years, a Nasdaq listed company and a provider of performance measurement and improvement services, healthcare analytics and governance education to the healthcare industry in the United States and Canada, as the principal financial officer beginning August 1994, Vice President, Treasurer, Chief Financial Officer, Secretary and a director from 1997 until September 1, 2011, and as Senior Vice President Corporate Development until September 2012. From June 1993 until August 1994, Mr. Beans was the finance director for the Central Interstate Low-Level Radioactive Waste Commission, a five-state compact developing a low-level radioactive waste disposal plan. From 1979 to 1988 and from June 1992 to June 1993, he practiced as a certified public accountant. Mr. Beans is a graduate of Doane College.

Jeffrey W. Dougan, *Senior Vice President and Chief Operating Officer*. Mr. Dougan joined the Company on July 15, 2013 as Chief Operating Officer, and he is responsible for overseeing the Company's third party management companies, hotel operations, as well as maintaining relationships with current and future brand families. Mr. Dougan, age 54, previously served more than 25 years in the hospitality industry. From June 2008 to July 2013, Mr. Dougan was a former Vice President of Operations for Stonebridge Hospitality where he oversaw a diverse hotel portfolio featuring eight different brands in a variety of segments. He has held a number of industry positions with leading companies, including Vice President of Operations at Sage Hospitality Resources, Area Operations Manager at the Homestead Village in Colorado and New Mexico, and General Manager at the Grand Aspen Hotel and the Dillon Comfort Suites, both in Colorado. Mr. Dougan holds a Bachelor of Science degree in Business Administration from the Rochester Institute of Technology.

PART II

Item 5. Market for the Registrant's Common Equity / Related Shareholder Matters and Issuer Purchases of Equity Securities.

(a) Market Information

The common stock trades on the Nasdaq Global Market under the symbol "SPPR." The closing sales price for the common stock on March 4, 2014 was $2.26 per share. The table below sets forth the high and low sales prices per share reported on the Nasdaq Global Market for the periods indicated.

	Supertel Hospitality, Inc. Common Stock			
	High		Low	
2012				
First Quarter	**$**	10.80	**$**	4.96
Second Quarter	**$**	8.96	**$**	5.84
Third Quarter	**$**	8.88	**$**	6.40
Fourth Quarter	**$**	8.80	**$**	7.60
2013				
First Quarter	**$**	9.84	**$**	7.68
Second Quarter	**$**	9.44	**$**	6.96
Third Quarter	**$**	7.76	**$**	4.96
Fourth Quarter	**$**	6.89	**$**	2.38

(b) Holders

As of March5, 2014, the approximate number of holders of record of the common stock was 106 and the approximate number of beneficial owners was 2,300.

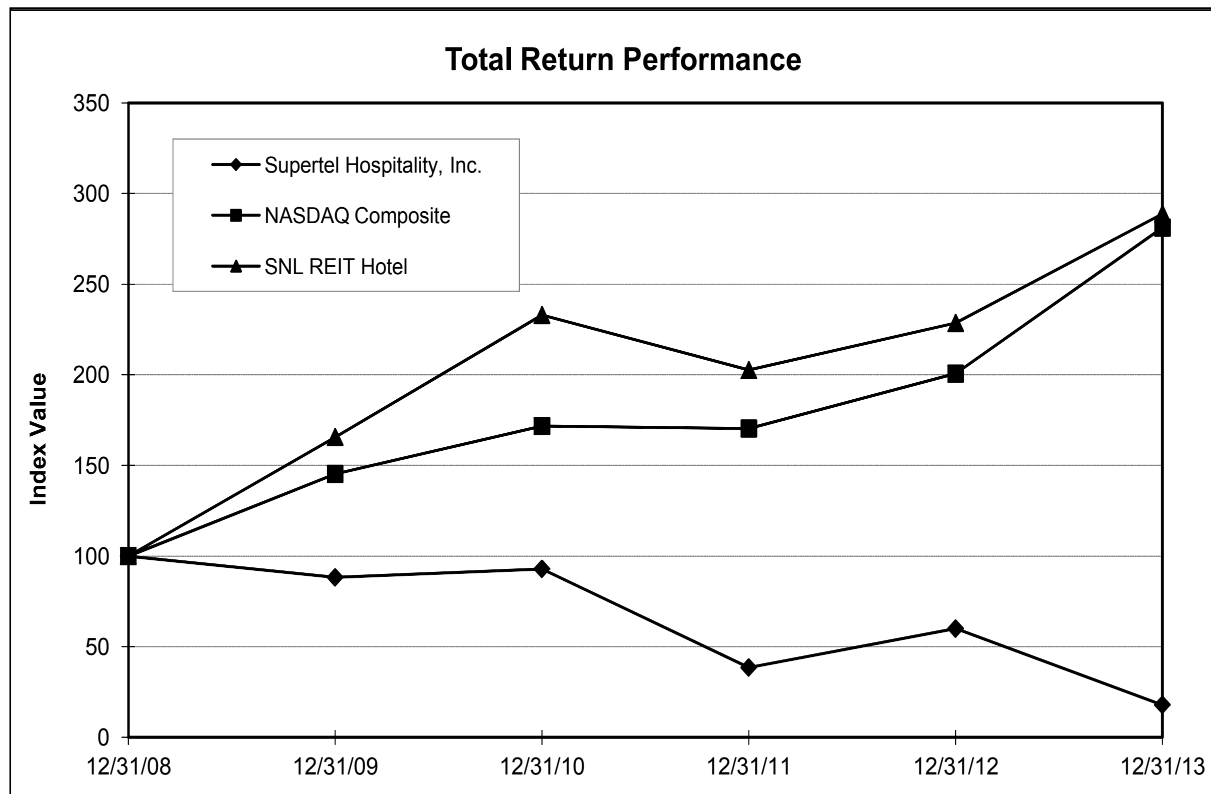
(c) Dividends

No dividends on common stock were paid for 2012 and 2013. The actual amount of future dividends will be determined by the board of directors based on the actual results of operations, economic conditions, capital expenditure requirements and other factors that the board of directors deems relevant.

Commencing with dividends due on our preferred stock on December 31, 2013, we suspended payment of dividends on our Series A preferred stock, Series B preferred stock and Series C convertible preferred stock to preserve capital and improve liquidity. We cannot declare or pay a dividend on our common stock, so long as any shares of our Series A preferred stock, Series B preferred stock and Series C preferred stock remain outstanding, unless all undeclared and unpaid dividends for all prior dividend periods have been paid or are contemporaneously declared and paid in full on our preferred stock.

PERFORMANCE GRAPH

The following graph compares the yearly percentage change in the cumulative total shareholder return on our common stock for the period December 31, 2008 through December 31, 2013, with the cumulative total return on the SNL securities Hotel REIT Index ("Hotel REITs Index") and the NASDAQ Composite ("NASDAQ—Total US Index") for the same period. The Hotel REITs Index is comprised of publicly traded REITs that focus on investments in hotel properties. The NASDAQ Composite is comprised of all United States common shares traded on the NASDAQ Stock Market (previously titled NASDAQ—Total US). The comparison assumes a starting investment of $100 on December 31, 2008 in our common stock and in each of the indices shown, and assumes that all dividends are reinvested. The performance graph is not necessarily indicative of future investment performance.



Index	*Period Ending*					
	12/31/08	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**
Supertel Hospitality, Inc.	100.00	88.24	92.94	38.54	60.00	17.94
NASDAQ Composite	100.00	145.36	171.74	170.38	200.63	281.22
SNL REIT Hotel	100.00	165.63	232.93	202.62	228.56	288.74

Source : SNL Financial LC, Charlottesville, VA
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Item 6. Selected Financial Data

(In thousands, except per share data)	As of and for the Years Ended December 31,				
	2013	2012	2011	2010	2009
Operating data (1):					
Room rentals and					
other hotel services (2)	$ 56,163	$ 58,205	$ 55,127	$ 54,497	$ 52,805
Net earnings (loss) from continuing operations	732	(11,147)	(6,499)	(5,027)	(3,105)
Discontinued operations	(2,085)	927	(10,978)	(5,575)	(24,420)
Net loss	(1,353)	(10,220)	(17,477)	(10,602)	(27,525)
Noncontrolling interest	2	10	32	17	130
Net loss attributable to controlling interests	(1,351)	(10,210)	(17,445)	(10,585)	(27,395)
Preferred stock dividends declared and undeclared	(3,349)	(3,169)	(1,474)	(1,474)	(1,474)
Net loss available to common shareholders	(4,700)	(13,379)	(18,919)	(12,059)	(28,869)
EBITDA (3)	12,035	11,078	1,575	10,116	(3,260)
Adjusted EBITDA (3)	12,397	17,063	15,997	18,573	19,968
FFO (4)	7,874	(2,253)	3,933	6,571	7,256
Adjusted FFO (4)	(391)	(1,766)	4,057	6,649	7,256
Weighted average number of shares outstanding:					
basic	2,890	2,885	2,872	2,820	2,706
diluted for EPS calculation	2,890	2,885	2,872	2,820	2,706
diluted for FFO per share calculation	10,392	2,885	2,872	2,820	2,706
Net earnings per common share from continuing operations - basic	(0.91)	(4.96)	(2.77)	(2.30)	(1.64)
Net earnings per common share from discontinued operations - basic	(0.72)	0.32	(3.82)	(1.98)	(9.03)
Net earnings per common share basic	(1.63)	(4.64)	(6.59)	(4.28)	(10.67)
Net earnings per common share diluted	(1.63)	(4.64)	(6.59)	(4.28)	(10.67)
FFO per share - basic	2.72	(0.78)	1.37	2.33	2.68
Adjusted FFO per share - basic	(0.14)	(0.61)	1.41	2.36	2.68
FFO per share - diluted	0.94	(0.78)	1.37	2.33	2.68
Adjusted FFO per share - diluted	(0.14)	(0.61)	1.41	2.36	2.68
Total assets	172,085	201,847	221,172	256,644	274,395
Total debt	118,045	132,821	165,845	175,010	189,513
Net cash flow:					
Provided by operating activities	2,017	6,583	2,865	7,672	6,101
Provided by investing activities	15,613	4,223	8,147	6,865	12,025
Used by financing activities	(18,476)	(10,194)	(11,066)	(14,632)	(18,410)

Reconciliation of Weighted average number of shares for EPS diluted to FFO diluted:					
EPS diluted shares	2,890	2,885	2,872	2,820	2,706
Common stock issuable upon exercise or conversion of:					
Restricted Stock	2	0	0	0	0
Preferred Stock	3,750	0	0	0	0
Warrants	3,750	0	0	0	0
FFO diluted shares	10,392	2,885	2,872	2,820	2,706

	As of and for the Years Ended December 31,				
	2013	2012	2011	2010	2009
RECONCILIATION OF NET LOSS TO ADJUSTED EBITDA					
Net loss available to common shareholders	$ (4,700)	$(13,379)	$(18,919)	$(12,059)	$(28,869)
Interest, including discontinued operations	8,277	9,869	11,371	12,068	12,618
Loss on debt extinguishment	1,164	191	1,031	156	397
Income tax expense (benefit), including discontinued operations (5)	0	5,610	(1,904)	(1,757)	(1,647)
Depreciation and amortization, including discontinued operations	7,294	8,787	9,996	11,708	14,241
EBITDA	$ 12,035	$ 11,078	$ 1,575	$ 10,116	$ (3,260)
Noncontrolling interest	(2)	(10)	(32)	(17)	(130)
Net gain on disposition of assets	(1,806)	(7,833)	(1,452)	(1,276)	(2,264)
Impairment	7,086	10,172	14,308	8,198	24,148
Preferred stock dividend declared and undeclared	3,349	3,169	1,474	1,474	1,474
Unrealized (gain) loss on derivatives	(10,028)	247	0	0	0
Acquisition expense	713	240	124	78	0
Equity offering expense	1,050	0	0	0	0
Adjusted EBITDA	$ 12,397	$ 17,063	$ 15,997	$ 18,573	$ 19,968
RECONCILIATION OF NET EARNINGS TO FFO					
Net loss available to common shareholders	$ (4,700)	$(13,379)	$(18,919)	$(12,059)	$(28,869)
Depreciation and amortization, including discontinued operations	7,294	8,787	9,996	11,708	14,241
Net gain on disposition of assets	(1,806)	(7,833)	(1,452)	(1,276)	(2,264)
Impairment	7,086	10,172	14,308	8,198	24,148
FFO available to common shareholders	$ 7,874	$ (2,253)	$ 3,933	$ 6,571	$ 7,256
Unrealized (gain) loss on derivatives	(10,028)	247	0	0	0
Acquisitions expense	713	240	124	78	0
Equity offering expense	1,050	0	0	0	0
Adjusted FFO	$ (391)	$ (1,766)	$ 4,057	$ 6,649	$ 7,256

(1) Revenues for all periods exclude revenues from hotels sold or classified as held for sale, which are classified in discontinued operations in the statements of operations.

(2) Hotel revenues include room and other revenues from the operations of the hotels.

(3) EBITDA and Adjusted EBITDA are financial measures that are not calculated in accordance with accounting principles generally accepted in the United States of America (“GAAP”). We calculate EBITDA and Adjusted EBITDA by adding back to net earnings (loss) available to common shareholders certain non-operating expenses and non-cash charges which are based on historical cost accounting and we believe may be of limited significance in evaluating current performance. We believe these adjustments can help eliminate the accounting effects of depreciation and amortization and financing decisions and facilitate comparisons of core operating profitability between periods, even though EBITDA and Adjusted EBITDA do not represent an amount that accrues directly to common shareholders. In calculating Adjusted EBITDA, we add back noncontrolling interest, net (gain) loss on disposition of assets, preferred stock dividends, acquisition expenses and equity offering expense, which are cash charges. We also add back impairment and unrealized gain or loss on derivatives, which are non-cash charges.

EBITDA and Adjusted EBITDA do not represent cash generated from operating activities determined by GAAP and should not be considered as alternatives to net income, cash flow from operations or any other operating performance measure prescribed by GAAP. EBITDA and Adjusted EBITDA are not measures of our liquidity, nor are they indicative of funds available to fund our cash needs, including our ability to make cash distributions. Neither do the measurements reflect cash expenditures for long-term assets and other items that have been and will be incurred. EBITDA and Adjusted EBITDA may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions, and other commitments and uncertainties. To compensate for this, management considers the impact of these excluded items to the extent they are material to operating decisions or the evaluation of our operating performance. EBITDA and Adjusted EBITDA, as presented, may not be comparable to similarly titled measures of other companies.

(4) FFO and Adjusted FFO ("AFFO") are non-GAAP financial measures. We consider FFO and AFFO to be market accepted measures of an equity REIT's operating performance, which are necessary, along with net earnings (loss), for an understanding of our operating results. FFO, as defined under the National Association of Real Estate Investment Trusts (NAREIT) standards, consists of net income computed in accordance with GAAP, excluding gains (or losses) from sales of real estate assets, plus depreciation and amortization of real estate assets. We believe our method of calculating FFO complies with the NAREIT definition. AFFO is FFO adjusted to exclude either gains or losses on derivative liabilities, which are noncash charges against income, and which do not represent results from our core operations. AFFO also adds back acquisition costs and equity offering expense. FFO and AFFO do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. FFO and AFFO should not be considered as alternatives to net income (loss) (computed in accordance with GAAP) as an indicator of our liquidity, nor are they indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. All REITs do not calculate FFO and AFFO in the same manner; therefore, our calculation may not be the same as the calculation of FFO and AFFO for similar REITs.

We use FFO and AFFO as performance measures to facilitate a periodic evaluation of our operating results relative to those of our peers. We consider FFO and AFFO to be useful additional measures of performance for an equity REIT because they facilitate an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assume that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, we believe that FFO and AFFO provide a meaningful indication of our performance.

(5) Income tax (benefit) including discontinued operations for 2013 and 2012 includes an income tax valuation allowance of $1.3 million and $6.3 million, respectively.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain information both included and incorporated by reference in this management's discussion and analysis and other sections of this Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on assumptions that management has made in light of experience in the business in which we operate, as well as management's perceptions of historical trends, current conditions, expected future developments and other factors believed to be appropriate under the circumstances. These statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond our control) and assumptions. Management believes that these forward-looking statements are based on reasonable assumptions.

Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative thereof or other variations thereon or comparable terminology. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in: economic conditions generally and the real estate market specifically, legislative/regulatory changes (including changes to laws governing the taxation of real estate investment trusts), availability of capital, risks associated with debt financing, interest rates, competition, supply and demand for hotel rooms in our current and proposed market areas, policies and guidelines applicable to real estate investment trusts and other risks and uncertainties described herein, and in our filings with the SEC from time to time. These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference herein. We caution readers not to place undue reliance on any forward-looking statements included in this report which speak only as of the date of this report.

Overview

We are a self-administered REIT, and through our subsidiaries, we owned 69 limited service hotels in 21 states at December 31, 2013. Our hotels operate under several national franchise and independent brands.

Our significant events for 2013 include:

- we sold 17 hotels for gross proceeds of $22.0 million and used the net proceeds primarily to pay off the underlying loans;
- commenced a public offering for $100 million of our common stock, but withdrew the offering due to market conditions;
- rebranding of four of our hotels, and the impact of the federal government sequester on two hotels, negatively impacted our results;
- as of December 31, 2013, we had 19 hotels classified as held for sale with a total net book value of $31.5 million. Gross proceeds from the sales are expected to be $41.7 million, and net proceeds will be used to pay off the underlying loans in the amount of $24.1 million, with remaining cash used to reduce short term borrowings;
- non cash impairment charges of $7.1 million were booked against hotel properties; and
- we affected a one-for-eight reverse split of our common stock.

As of December 31, 2013, the Company had 19 hotels classified as held for sale. At the beginning of 2013, the Company had 22 hotels held for sale and during the year classified an additional fifteen hotels as held for sale. Seventeen of these hotels were sold during 2013, and one of the hotels was reclassified as held for use due to changes in the property's market condition.

We conduct our business through a traditional umbrella partnership REIT, or UPREIT, in which our hotel properties are owned by our operating partnerships, Supertel Limited Partnership and E&P Financing Limited Partnership, limited partnerships, limited liability companies or other subsidiaries of our operating partnerships. We currently own, indirectly, an approximate 99% partnership interest in Supertel Limited Partnership and a 100% partnership interest in E&P Financing Limited Partnership.

The discussion that follows is based primarily on our consolidated financial statements as of December 31, 2013 and 2012, and results of operations for the years ended December 31, 2013, 2012 and 2011, and should be read along with the consolidated financial statements and related notes.

Same Store Revenue Per Available Room ("RevPAR"), Average Daily Rate ("ADR"), and Occupancy

The following table presents our RevPAR, ADR and Occupancy by region for 2013, 2012 and 2011, respectively. The comparisons of same store operations are for 49* hotels owned as of January 1, 2012. Same store

calculations exclude 19 properties which are held for sale, and one property which was acquired during the second quarter of 2012 and therefore was not owned by the Company throughout each of the periods presented.

	2013			2012			2011		
Same Store									
Region	RevPAR	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	Occupancy	ADR
Mountain	$ 32.80	61.70 %	$ 53.20	$ 35.81	68.50 %	$ 52.27	$ 32.05	63.80 %	$ 50.23
West North Central	32.99	62.30 %	52.97	32.28	62.30 %	51.85	32.04	63.80 %	50.21
East North Central	39.32	60.60 %	64.85	37.48	59.10 %	63.41	36.54	57.50 %	63.50
Middle Atlantic	41.95	69.80 %	60.12	44.67	73.20 %	61.06	43.52	75.30 %	57.83
South Atlantic	37.33	55.60 %	67.10	43.37	66.50 %	65.18	42.51	65.50 %	64.91
East South Central	36.36	56.60 %	64.25	43.56	63.50 %	68.56	43.48	65.10 %	66.77
West South Central	17.66	44.00 %	40.13	20.41	43.30 %	47.10	25.52	55.30 %	46.11
Total Same Store Hotels	$ 35.58	59.00 %	$ 60.32	$ 37.65	62.70 %	$ 60.05	$ 37.10	63.00 %	$ 58.94
South Atlantic Acquisitions	77.38	63.00 %	122.92	85.90	69.80 %	123.03	0.00	0.00 %	0.00
Total Acquisitions	$ 77.38	63.00 %	$122.92	$ 85.90	69.80 %	$123.03	$ 0.00	0.00 %	$ 0.00
Total Continuing Operations	$ 36.61	59.10 %	$ 61.96	$ 38.38	62.80 %	$ 61.11	$ 37.10	63.00 %	$ 58.94

States included in the Regions	
Mountain	Idaho and Montana
West North Central	Iowa, Kansas, Missouri, and Nebraska
East North Central	Indiana and Wisconsin
Middle Atlantic	Pennsylvania
South Atlantic	Florida, Georgia, Maryland, North Carolina, Virginia and West Virginia
East South Central	Kentucky and Tennessee
West South Central	Louisiana

* The following properties have been removed from the same store portfolio during the reporting period and classified as held for sale:

Batesville, AR Super 8
Brooks, KY Baymont Inn
Moberly, MO Super 8
Sioux Falls, SD (Airport) Days Inn
West Plains, MO, Super 8
Clarinda, IA Super 8
Norfolk, NE Super 8
Sioux Falls, SD (Empire) Days Inn
Atlanta, GA (Pine Street) Savannah Suites
Augusta, GA Savannah Suites
Chamblee, GA Savannah Suites
Greenville, SC Savannah Suites
Jonesboro, GA Savannah Suites
Savannah, GA Savannah Suites
Stone Mountain, GA Savannah Suites

The following property has been removed from the held for sale portfolio during the reporting period and reclassified as held for use, and is now included in the continuing operations presentation:

Omaha, NE Sleep Inn

Our RevPAR, ADR and Occupancy, by franchise affiliation, for 2013, 2012 and 2011 were as follows:

	2013			2012			2011		
Same Store									
Brand	RevPAR	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	Occupancy	ADR
Select Service									
Upper Midscale									
Comfort Inn/ Comfort Suites	$ 44.54	61.80 %	$ 72.10	$ 46.37	65.10 %	$ 71.21	$ 45.19	64.10 %	$ 70.49
Other Upper Midscale (1)	30.23	46.80 %	64.59	68.79	83.20 %	82.72	63.96	77.70 %	82.29
Total Upper Midscale	$ 43.92	61.10 %	$ 71.85	$ 47.34	65.90 %	$ 71.84	$ 46.01	64.70 %	$ 71.11
Midscale									
Sleep Inn	32.43	49.40 %	65.71	34.79	51.60 %	67.47	36.09	54.40 %	66.32
Quality Inn	31.09	44.10 %	70.56	33.88	47.10 %	71.95	29.49	43.90 %	67.18
Total Midscale	$ 31.66	46.30 %	$ 68.36	$ 34.27	49.00 %	$ 69.95	$ 32.29	48.40 %	$ 66.77
Economy									
Days Inn	28.25	53.10 %	53.25	31.00	59.70 %	51.95	33.02	63.10 %	52.36
Super 8	30.85	61.50 %	50.18	30.70	62.00 %	49.48	30.45	62.80 %	48.46
Other Economy (2)	42.05	54.30 %	77.40	50.43	69.10 %	72.96	47.25	67.20 %	70.27
Total Economy	$ 31.19	58.90 %	$ 52.94	$ 32.43	62.10 %	$ 52.23	$ 32.46	63.30 %	$ 51.32
Total Same Store	$ 35.58	59.00 %	$ 60.32	$ 37.65	62.70 %	$ 60.05	$ 37.10	63.00 %	$ 58.94
Upscale Acquisitions									
Hilton Garden Inn	$ 77.38	63.00 %	$ 122.92	$ 85.90	69.80 %	$ 123.03	$ 0.00	0.00 %	$ 0.00
Total Upscale Acquisitions	$ 77.38	63.00 %	$ 122.92	$ 85.90	69.80 %	$ 123.03	$ 0.00	0.00 %	$ 0.00
Total Continuing Operations	$ 36.61	59.10 %	$ 61.96	$ 38.38	62.80 %	$ 61.11	$ 37.10	63.00 %	$ 58.94

(1) Includes Clarion brands
(2) Includes Rodeway and Independent brands

Key Performance Indicators

Earnings Before Interest, Taxes, Depreciation, Amortization, Noncontrolling Interest and Preferred Stock Dividends

The Company's EBITDA for the three years ending December 31, 2013, 2012, and 2011 was $12.0 million, $11.1 million and $1.6 million, respectively. Adjusted EBITDA for the three years ending December 31, 2013, 2012, and 2011 was $12.4 million, $17.1 million and $16.0 million, respectively.

Please refer to Item 6. Selected Financial Data for a reconciliation of EBITDA and Adjusted EBITDA.

Funds from Operations

The Company's funds from operations ("FFO") for the three years ending December 31, 2013, 2012, and 2011 was $7.9 million, $(2.3) million and $3.9 million, respectively. The Company's Adjusted FFO for the three years ending December 31, 2013, 2012, and 2011 was $(0.4) million, $(1.8) million and $4.1 million, respectively. Diluted FFO per share and diluted Adjusted FFO per share are computed after adjusting the numerator and denominator of the basic computation for the effects of any dilutive potential common shares outstanding during the period. For 2013, the Company's outstanding stock options would be antidilutive and are not included in the dilution computation. For 2012 and 2011, the Company's outstanding warrants to purchase common stock, stock options, Series C convertible preferred stock, and restricted stock would be antidilutive and are not included in the dilution computation. 11,424 Preferred Operating Units are also not included in the dilution computation.

Please refer to Item 6. Selected Financial Data for a reconciliation of FFO and adjusted FFO.

Net Operating Income

NOI is one of the performance indicators the Company uses to assess and measure operating results. The Company believes that NOI is a useful additional measure of operating performance of its hotels because it provides a measure of core operations that is unaffected by depreciation, amortization, financing and general and administrative expense. NOI is also an important performance measure used to determine the amount of the management fees paid by the Company to the operators of its hotels.

NOI is a non-GAAP measure, and is not necessarily indicative of available earnings and should not be considered an alternative to Earnings Before Net Gain (Loss) on Dispositions of Assets, Other Income, Interest Expense and Income Taxes. NOI is reconciled to Earnings Before Net Gain (Loss) on Dispositions of Assets, Other Income, Interest Expense and Income Taxes as follows (in thousands):

	Twelve months ended December 31,	
	2013	2012
Earnings Before Net Loss on Dispositions of Assets, Other Income, Interest Expense, and Income Taxes	$ (196)	$ 4,093
Add back:		
Acquisition, termination expense	713	240
General and administrative	3,923	3,908
Equity offering expense	1,050	0
Depreciation and amortization	6,517	6,591
Hotel operating revenue - discontinued	22,847	37,145
Hotel operating expenses - discontinued	(18,568)	(31,109)
Other expenses *	8,912	10,314
NOI	$ 25,198	$ 31,182

* Other Expenses include both continuing and discontinued operations for management fees, bonus wages, insurance, real estate and personal property taxes, and miscellaneous expenses.

Property Operating Income

POI is a non-GAAP financial measure, and should not be considered as an alternative to loss from continuing operations or loss from discontinued operations, net of tax. The Company believes that the presentation of hotel property operating results (POI) is helpful to investors, and represents a more useful description of its core operations, as it better communicates the comparability of its hotels' operating results for all of the company's hotel properties.

POI from continuing operations is reconciled to net loss as follows (in thousands):

	Twelve months ended December 31,	
	2013	**2012**
Net loss	$ (1,353)	$ (10,220)
Depreciation and amortization, including discontinued operations	7,294	8,787
Net gain on disposition of assets, including discontinued operations	(1,806)	(7,833)
Other (income) expense	(10,062)	144
Interest expense, including discontinued operations	8,277	9,869
Loss on debt extinguishment	1,164	191
General and administrative expense	3,923	3,908
Acquisition expense	713	240
Equity offering expense	1,050	0
Impairment losses	7,086	10,172
Income tax expense, including discontinued operations	0	5,610
Room rentals and other hotel services - discontinued operations	(22,847)	(37,145)
Hotel and property operations expense - discontinued operations	18,568	31,109
POI--continuing operations	$ 12,007	$ 14,832

POI from discontinued operations is reconciled to loss from discontinued operations, net of tax, as follows (in thousands):

	Twelve months ended December 31, 2013	Twelve months ended December 31, 2012
Gain (loss) from discontinued operations	$ (2,085)	$ 927
Depreciation and amortization from discontinued operations	777	2,196
Net gain on disposition of assets from discontinued operations	(1,853)	(7,830)
Interest expense from discontinued operations	2,314	4,178
Loss on debt extinguishment	706	53
Impairment losses from discontinued operations	4,420	7,339
Income tax benefit from discontinued operations	0	(827)
POI - discontinued operations	$ 4,279	$ 6,036

Results of Operations

Comparison of the year ended December 31, 2013 to the year ended December 31, 2012

Operating results are summarized as follows for the years ended December 31 (in thousands):

	2013			2012			Continuing
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total	Operations Variance
Revenues	$ 56,163	$ 22,847	$ 79,010	$ 58,205	$ 37,145	$ 95,350	$ (2,042)
Hotel and property operations expenses	(44,156)	(18,568)	(62,724)	(43,373)	(31,109)	(74,482)	(783)
Interest expense	(5,963)	(2,314)	(8,277)	(5,691)	(4,178)	(9,869)	(272)
Loss on debt extinguishment	(458)	(706)	(1,164)	(138)	(53)	(191)	(320)
Depreciation and amortization expense	(6,517)	(777)	(7,294)	(6,591)	(2,196)	(8,787)	74
General and administrative expenses	(3,923)	0	(3,923)	(3,908)	0	(3,908)	(15)
Acquisition, termination expense	(713)	0	(713)	(240)	0	(240)	(473)
Equity offering expense	(1,050)	0	(1,050)	0	0	0	(1,050)
Impairment losses	(2,666)	(4,420)	(7,086)	(2,833)	(7,339)	(10,172)	167
Net gains (losses) on dispositions of assets	(47)	1,853	1,806	3	7,830	7,833	(50)
Other income (expense)	10,062	0	10,062	(144)	0	(144)	10,206
Income tax benefit (expense)	0	0	0	(6,437)	827	(5,610)	6,437
	$ 732	$ (2,085)	$ (1,353)	$ (11,147)	$ 927	$ (10,220)	$ 11,879

The Company's ADR for the same store portfolio was up 0.4% from the prior year, with occupancy down 5.9%. The overall result was a decrease in RevPAR of 5.5%. We refer to our entire portfolio as select service hotels which we further describe as upscale hotels, upper midscale hotels, midscale hotels, economy hotels and extended stay hotels. Results for our same store portfolio are presented above in Item 7 under Same Store Revenue Per Available Room ("RevPAR"), Average Daily Rate ("ADR") and Occupancy.

Revenues and Operating Expenses

Income from continuing operations for the twelve months ended December 31, 2013 was $0.7 million, compared to loss from continuing operations of $(11.1) million for 2012. After recognition of discontinued operations, noncontrolling interests and dividends for preferred stock shareholders, the net loss attributable to common shareholders was $(4.7) million or $(1.63) per diluted share, for the year ended December 31, 2013, compared to net loss attributable to common shareholders of $(13.4) million or $(4.64) per diluted share for 2012.

During 2013 revenues from continuing operations decreased $(2.0) million or 3.5% compared to 2012. The decrease in hotel revenue reflects a $1.0 million increase from the new hotel purchased in May 2012, a full year of operations in 2013 versus seven months in 2012. This increase is offset by an approximate $3.0 million decrease in revenue from six hotels; four of which were rebranded to brands lower in the chain scale that charge lower daily rates and require new reservation systems, which will take time to stabilize; and two hotels which were impacted by general weakness in the Washington D.C. market. Hotel and property operations expenses from continuing operations for the year ended 2013 increased $0.8 million or 1.8 percent. The increase in hotel operating expenses reflects a full year of operations in 2013 of the hotel purchased in May 2012 versus seven months of operations in 2012. In addition, the decrease in variable expenses due to the reduction in revenue was primarily offset by brand required replacement of linens.

Interest Expense, Depreciation and Amortization Expense and General and Administration Expense

Interest expense from continuing operations increased by $0.6 million, due primarily to the increased balance of the revolving credit line and the acquisition of the Dowell Hilton Garden Inn in May, 2012. The depreciation and amortization expense from continuing operations and the general and administration expense for 2013 remained essentially flat.

Impairment Losses

In 2013 we had $2.7 million of impairment losses in continuing operations and $4.4 million of net impairment losses in discontinued operations for the year. In 2012 we had $2.8 million of impairment losses in continuing operations and $7.4 million of impairment losses in discontinued operations for the year. Discontinued operations consist of hotels held for sale at December 31, 2013 or sold during 2012 or 2013. See Note 6 in the footnotes to the consolidated financial statements for additional information including a discussion of our impairment analysis of our hotel assets.

Dispositions

In 2013, six hotels were sold with gains of $1.9 million, and eleven hotels were sold with no gain. In 2012, the $7.8 million of net gains on disposition of assets consisted primarily of gains realized on nine property sales.

Acquisitions and Termination Expense and Equity Offering Expense

The $0.5 million variance in acquisition and termination expense represents expenses incurred for planned hotel acquisitions which were cancelled.

The $1.1 million of equity offering expense includes charges incurred in preparation of a proposed common stock offering. The offering was withdrawn September 26, 2013.

Other Income (Expense)

The increased other income for the current year compared to the year ended December 31, 2012, resulted from a change in the fair value of derivative liabilities. The fair value of the derivative liabilities decreased by an aggregate of $10.0 million during 2013 and increased by $0.2 million during the year 2012. The change in fair value is due primarily to a change in the price of the common stock.

Income Tax

At December 31, 2013, the company provided a full valuation allowance against our deferred tax asset due to the uncertainty of realization because of historical operating losses. Due to the full deferred tax valuation allowance, no income tax expense or benefit was recorded for the year ended December 31, 2013.

The income tax expense from continuing operations in 2012 is the result of a $6.3 million tax valuation allowance determined as of December 31, 2012, offsetting a benefit resulting from a loss in continuing operations by the TRS Lessee in 2012. See Note 8 in the footnotes to the consolidated financial statements for additional information including a discussion of our tax valuation allowance.

Management believes the federal and state income tax rate for the TRS Lessee will be approximately 38%. The income tax benefit /expense will vary based on the taxable earnings or loss of the TRS Lessee, a C corporation.

Comparison of the year ended December 31, 2012 to the year ended December 31, 2011

Operating results are summarized as follows for the years ended December 31 (in thousands):

	2012			2011			Continuing Operations Variance
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total	
Revenues	$ 58,205	$ 37,145	$ 95,350	$ 55,127	$ 42,780	$ 97,907	$ 3,078
Hotel and property operations expenses	(43,373)	(31,109)	(74,482)	(41,426)	(36,117)	(77,543)	(1,947)
Interest expense	(5,691)	(4,178)	(9,869)	(5,860)	(5,511)	(11,371)	169
Loss on debt extinguishment	(138)	(53)	(191)	(70)	(961)	(1,031)	(68)
Depreciation and amortization expense	(6,591)	(2,196)	(8,787)	(6,599)	(3,397)	(9,996)	8
General and administrative expenses	(3,908)	0	(3,908)	(3,884)	(50)	(3,934)	(24)
Acquisition, termination expense	(240)	0	(240)	(124)	0	(124)	(116)
Equity offering expense	0	0	0	0	0	0	0
Termination costs	0	0	0	(540)	0	(540)	540
Impairment losses	(2,833)	(7,339)	(10,172)	(4,523)	(9,785)	(14,308)	1,690
Net gains (losses) on dispositions of assets	3	7,830	7,833	1,133	319	1,452	(1,130)
Other income (expense)	(144)	0	(144)	107	0	107	(251)
Income tax benefit (expense)	(6,437)	827	(5,610)	160	1,744	1,904	(6,597)
	$ (11,147)	$ 927	$ (10,220)	$ (6,499)	$ (10,978)	$ (17,477)	$ (4,648)

The hotel industry made considerable progress during 2012, with demand continuing to outpace supply, and RevPAR increasing over the prior year, according to data from Smith Travel Research. The Company's ADR for the same store portfolio increased 1.9%, while occupancy dropped 0.5%, for a net RevPAR increase of 1.5% to $37.65. We refer to our entire portfolio as select service hotels which we further describe as upscale hotels, upper midscale hotels, midscale hotels, economy hotels and extended stay hotels. Results for our same store portfolio are presented above in Item 7 under Same Store Revenue Per Available Room ("RevPAR"), Average Daily Rate ("ADR") and Occupancy.

Revenues and Operating Expenses

Revenues from continuing operations for the twelve months ended December 2012 increased $3.1 million or 5.6%. The variance was caused by the increase in ADR overcoming the decrease in occupancy.

During the twelve months ended December 31, 2012, hotel and property operations expenses from continuing operations increased by $1.9 million or 4.7 percent. The variance was primarily caused by increases in the cost of franchise-related expenses, payroll and insurance.

Loss from continuing operations for the twelve months ended December 31, 2012 reflected $(11.1) million, compared to net loss of $(6.5) million for 2011. After recognition of discontinued operations, noncontrolling interest and dividends for preferred stock shareholders, the net loss attributable to common shareholders reflected $(13.4) million or $(4.64) per diluted share, for the year ended December 31, 2012, compared to $(18.9) million or $(6.59) per diluted share for 2011.

Interest Expense, Depreciation and Amortization Expense and General and Administration Expense

Interest expense from continuing operations decreased slightly by $0.1 million. The depreciation expense from continuing operations and the general and administration expense from continuing operations for 2012 remained essentially unchanged.

Impairment Losses

See the discussion above regarding impairment charges for 2012. For 2011, we recorded an impairment charge of $4.5 million on two hotels in continuing operations, and $9.8 million of net impairment on hotels in discontinued operations, twenty of which were subsequently sold.

Dispositions

In 2012, the $7.8 million of net gains on disposition of assets consists primarily of gains realized on nine property sales. In 2011, the $1.1 million of net gains on dispositions of assets in continuing operations is primarily related to the sale of the corporate office building. The $0.3 million in discontinued operations in 2011 is due mainly to the gain on the sale of Wichita North.

Income Tax

The income tax expense from continuing operations increased by approximately $6.6 million during 2012 compared to the year ago period. This is primarily the result of a $6.3 million tax valuation allowance expense determined as of December 31, 2012, offsetting an increased benefit resulting from a loss in continuing operations by the TRS Lessee in 2012. See Note 8 in the footnotes to the consolidated financial statements for additional information including a discussion of our tax valuation allowance.

The income tax benefit (expense) from continuing operations is related to the taxable loss (earnings) from our taxable REIT subsidiary, the TRS Lessee. Management believes the federal and state income tax rate for the TRS Lessee will be approximately 38%. The tax benefit (expense) is a result of TRS Lessee's losses (earnings) for the year ended December 31, 2012 and 2011. The income tax benefit (expense) will vary based on the taxable loss (earnings) of the TRS Lessee, a C corporation.

Liquidity and Capital Resources

Our operating performance, as well as our liquidity position, has been and continues to be negatively affected by economic conditions, many of which are beyond our control. Our income and ability to meet our debt service obligations, and make distributions to our shareholders, depends upon the operations of the hotels being conducted in a manner that maintains or increases revenue, or reduces expenses, to generate sufficient hotel operating income for TRS Lessee to pay the hotels' operating expenses, including management fees and rents to us. We depend on rent payments from TRS Lessee to pay our operating expenses and debt service and to make distributions to shareholders.

To improve liquidity and implement our plan to transition from economy hotels and move toward upscale and upper midscale hotels, the Company pursued a public offering in the third quarter 2013. On September 26, 2013, based on market conditions, pricing expectations, and after discussions with the underwriters, the Company withdrew and terminated its previously announced proposed public offering of 16,700,000 shares of Common Stock.

The costs of this offering and its failure to be completed have had a severe impact on the Company's liquidity. The Company is exploring other methods to satisfy its liquidity needs, but to date has not been able to complete a transaction that will provide sufficient liquidity to satisfy its operating and capital needs for the next twelve months. There can be no assurance that the Company will be able to obtain sufficient liquidity to continue to operate through 2014. Failure to obtain adequate liquidity may cause the Company to dispose of assets at unfavorable prices, delay or default in paying its obligations, seek legal protection while attempting to reorganize or cease operations entirely.

Our business requires continued access to adequate capital to fund our liquidity needs. In February 2012, the Company issued 3.0 million shares of Series C convertible preferred stock which provided $28.6 million of net proceeds. The Company agreed to use $25 million to pursue hotel acquisitions. We have used $6.6 million to purchase a hotel and remain committed to use $18.4 million for additional hotel acquisitions. As of February 28, 2014, we have used $9.1 million for debt repayment, and $3.7 million for operational funds from the proceeds committed to hospitality acquisitions. There are no contractual restrictions or penalties related to the use of these funds for purposes other than acquisitions. The Company is obligated to replace these funds promptly as it has the ability to do so. The Company is exploring opportunities to satisfy its long term liquidity needs as well as to

replenish the acquisition fund. There can be no assurance that the Company will be able to obtain the funding to replace these funds.

Each year the Company reviews its entire portfolio, identifies properties considered non-core and develops timetables for disposal of those assets deemed non-core. We focus on improving our liquidity through cash generating asset sales and disposition of assets that are not generating cash at levels consistent with our investment principles.

Currently, our foremost priorities continue to be preserving and generating capital sufficient to fund our liquidity needs. Given the deterioration and uncertainty in our financial performance, the economy and financial markets, management believes that access to conventional sources of capital will be challenging and may not be obtainable. We are working to proactively address challenges to our short-term and long-term liquidity position.

The following are the expected actual and potential sources of liquidity, which if realized we currently believe will be sufficient to fund our near and long-term obligations:

- Cash and cash equivalents;
- Cash generated from operations;
- Proceeds from asset dispositions;
- Proceeds from additional secured or unsecured debt financings; and/or
- Proceeds from public or private issuances of debt or equity securities.

The Company has significant indebtedness maturing during 2014, including a revolving line of credit with Great Western Bank ($11.0 million balance at December 31, 2013) and $17.3 million of mortgage loans with GE Franchise Finance Commercial LLC ("GE"). The Company's plan is to refinance the debt with Great Western Bank. If we are not successful in negotiating the refinancing of this debt or finding alternate sources of financing, we will be unable to meet the Company's near-term liquidity requirements. The seven hotels securing the GE loans are held for sale, and if sold, the Company believes that the net proceeds from the sale of the hotels would be sufficient to satisfy the debt with GE. If the hotels are not sold, the Company will attempt to refinance the debt with GE. If we are unable to refinance our debt with GE, we may be forced to dispose of the seven hotels on disadvantageous terms, which could compel us to file for reorganization.

These above sources are essential to our liquidity and financial position, and we cannot assure you that we will be able to successfully access them (particularly in the current economic environment). If we are unable to generate cash from these sources, we may have liquidity-related capital shortfalls and will be exposed to default risks. The significant issues with access to the liquidity sources identified above could lead to our insolvency.

In the near-term, the Company's cash flow from operations is not projected to be sufficient to meet all of our liquidity needs. In response, management has identified non-core assets in our portfolio to be liquidated over a one to ten year period. Among the criteria for determining properties to be sold was the potential upside when hotel fundamentals return to stabilized levels. The 19 properties held for sale as of December 31, 2013 were determined to be less likely to participate in increased cash flow levels when markets do improve. As such, we expect these dispositions to help us (1) preserve cash, through potential disposition of properties with current or projected negative cash flow and/or other potential near-term cash outlay requirements (including debt maturities) and (2) generate cash, through the potential disposition of strategically identified non-core assets that we believe have equity value above debt.

We are actively marketing the 19 properties held for sale, which we anticipate will result in the elimination of an estimated $24.1 million of debt. However, some of these hotels' markets have experienced a decrease in expected pricing. If this trend continues to worsen, we may be unable to complete the disposition of identified properties in a manner that would generate cash flow in line with management's estimates as noted above. Our ability to dispose of these assets is impacted by a number of factors. Many of these factors are beyond our control, including general economic conditions, availability of financing and interest rates. In light of the current economic conditions, we cannot predict:

- whether we will be able to find buyers for identified assets at prices and/or other terms acceptable to us;
- whether potential buyers will be able to secure financing; and
- the length of time needed to find a buyer and to close the sale of a property.

As our debt matures, our principal payment obligations also present significant future cash requirements. We expect lenders will continue to maintain tight lending standards, which could make it more difficult for us to obtain future credit facilities or loans on terms similar to the terms of our current credit facilities and loans or to obtain long-term financing on favorable terms or at all.

We may not be able to successfully extend, refinance or repay our debt due to a number of factors, including decreased property valuations, limited availability of credit, tightened lending standards and deteriorating economic conditions. Historically, extending or refinancing loans has required the payment of certain fees to, and expenses of, the applicable lenders. Any future extensions or refinancing will likely require increased fees due to tightened lending practices. These fees and cash flow restrictions will affect our ability to fund other liquidity uses. In addition, the terms of the extensions or refinancing may include operational and financial covenants significantly more restrictive than our current debt covenants.

The Company is required to meet various financial covenants required by its existing lenders. If the Company's future financial performance fails to meet these financial covenants, then its lenders also have the ability to take control of its encumbered hotel assets. Defaults with lenders due to failure to repay or refinance debt when due or failure to comply with financial covenants could also result in defaults under our facilities with Great Western Bank and GE. Our Great Western Bank and GE facilities contain cross-default provisions which would allow Great Western Bank and GE to declare a default and accelerate our indebtedness to them if we default on our other loans, and such default would permit that lender to accelerate our indebtedness under any such loan. If this were to happen, whether due to failure to repay or refinance debt when due or failure to comply with financial covenants, the Company's ability to conduct business could be severely impacted as there can be no assurance that the adequacy and timeliness of cash flow would be available to meet the Company's liquidity requirements. Should the Company be unable to maintain compliance with financial covenants, we will be required to seek waivers or, where allowed, cure the violation through additional principal payments. There is no assurance that the Company will be able to obtain waivers, or cure defaults with additional principal payments, if needed. The Company has in the past obtained waivers and modifications of its financial covenants with certain of its lenders in order to avoid defaults; however, there is no certainty that the Company could obtain waivers or modifications in the future, if the need arises.

The Company did not declare a common stock dividend during 2013 or 2012. In December 2013, the Company announced the suspension of the regular dividends on its outstanding preferred stock to preserve capital and improve liquidity. The Company will monitor requirements to maintain its REIT status and will routinely evaluate the dividend policy.

Sources and Uses of Cash

From 2004 to 2008 Supertel purchased 56 hotels. Those hotels on average were older than 18 years, and several were non-branded. When the economic recession occurred in 2008, severely impacting the hotel industry, our hotels' performance declined, the values of the hotels declined and as a result loan to values increased, creating issues with our lenders. With reduced operating performance, high debt levels, and older hotels that required higher than average maintenance, the property operating income was not sufficient to cover all expenses, debt service, capital expenditures and payment of preferred dividends. Since the economic downturn management has focused on divesting the Company of non-core hotels, and reducing debt, while developing a new strategic direction to transition Supertel out of the economy hotel sector, into the upscale and upper midscale sectors.

Over the past year average hotel market metrics have improved. The improvement has been primarily in the top ten markets; however, in the Washington DC area, the secondary and tertiary markets where many of our hotels are concentrated, the markets metrics have lagged the recovery. We have made progress in reducing our debt and divesting ourselves of some of the non-core hotels, but because of our challenged cash position, certain of the remaining hotels have not been recently renovated, and as a result we have not kept pace with contemporary

standards. In addition, in 2013 we experienced rebranding at four hotels to brands lower in the chain scale that charge lower daily rates and require new reservation systems which will take time to stabilize. With our markets not yet recovered and the impact of reflagging, our operating cash flow has continued to be insufficient to cover capital requirements, debt service and dividends. To date we have relied upon proceeds from sales of our non-core hotels and proceeds from our Preferred C offering to cover these shortfalls.

At December 31, 2013, available cash was $45,000 and the Company's available borrowing capacity on the Great Western Bank revolver was $1.5 million. Hotel revenues and operating results are greater in the second and third quarters than in the first and fourth quarters. As a result, we may have to enter into short-term borrowings in our first and fourth quarters in order to offset these fluctuations in revenues. There is no assurance that we will be successful in obtaining such short-term borrowings. As noted above, at December 31, 2013, cash flows from operations, the Great Western Bank revolver and the sources identified above are not expected to be sufficient to meet both short term and long term liquidity requirements.

We completed a private offering of 3.0 million shares of Series C convertible preferred stock in February 2012. Net proceeds of the offering, less expenses, were approximately $28.6 million. We agreed to use $25 million of the net proceeds to pursue hotel acquisitions which are consistent with the investment strategy of the Company's Board of Directors. In February 2012, a portion of the net proceeds were used to pay down the Great Western Bank revolver to $0. $6.6 million of the net proceeds have been used in the acquisition of a 100 room Hilton Garden Inn in Dowell, Maryland in May 2012. We used an additional $0.6 million of the net proceeds on costs associated with proposed acquisitions then under consideration.

The Great Western Bank revolver is a source of funds for our obligation to RES to use proceeds from the sale of the Series C convertible preferred stock for hotel acquisitions. Borrowings from the Great Western Bank revolver for GE debt payments due on December 31, 2012 ($3.8 million) and for operational funds in 2013 ($3.7 million) were made with RES's consent. The Company anticipates additional borrowings from the Great Western Bank revolver with RES's consent for operational funds until revenues and operating results improve. We have agreed with RES to replace those funds when we are able to do so, so that the replacement funds can be available for hotel acquisitions.

Short term outflows include monthly operating expenses, estimated annual debt service for 2014 of $10.0 million, and, if declared, the payment of dividends on Series A and Series B preferred stock, and Series C convertible preferred stock. Our long-term liquidity requirements consist primarily of the costs of renovations and other non-recurring capital expenditures that need to be made periodically with respect to hotel properties, and funds for acquisitions.

We have budgeted $6.0 million for capital improvements to our existing hotels during 2014. The increase in capital expenditures is a result of complying with brand mandated improvements and initiating projects that we believe will generate a return on investment. We may not have sufficient liquidity to complete the budgeted capital improvements.

In addition, management has identified noncore assets in our portfolio to be liquidated over a one to ten year period. We project that proceeds from anticipated property sales during 2014, net of expenses and debt repayment, of $6.4 million will be available for the Company's cash needs. We project that our operating cash flow, Great Western Bank revolver and, if realized, the sources identified above will not be sufficient to satisfy all of our liquidity and other capital needs for 2014.

Because our operating income and proceeds on sales of non core hotels have been inadequate to cover working capital requirements, we have used funds for operations that were previously identified by RES for acquisitions for operating and debt service requirements and recently secured a $2.0 million loan in January 2014 from RES to meet near term cash needs. This loan alone is not sufficient to meet our current cash requirements and we will need additional funds over the short term until we are able to access longer term funding sources as identified above. We cannot be assured these sources will be available and if they are not available, we may dispose of assets at unfavorable prices, delay or default in paying our obligations, seek legal protection while attempting to reorganize or cease operations entirely.

The Company has suffered recurring losses from operations and has a substantial amount of debt maturing in 2014 for which the Company does not have committed funding sources. Our ability to continue as a going concern is dependent on many factors, including, among other things, improvements in our operating results, our ability to sell

properties, and our ability to refinance maturing debt. If our plans to access capital are unsuccessful, these conditions raise substantial doubt about the Company's ability to continue as a going concern.

Financing

At December 31, 2013, we had long-term debt of $93.9 million associated with assets held for use, consisting of notes and mortgages payable, with a weighted average term to maturity of 2.8 years and a weighted average interest rate of 6.2%. The weighted average fixed rate was 6.4%, and the weighted average variable rate was 3.9%. Debt is classified as held for use if the properties collateralizing it are included in continuing operations. Debt is classified as held for sale if the properties collateralizing it are included in discontinued operations. Debt associated with assets held for sale is classified as a short-term liability due within the next year irrespective of whether the notes and mortgages evidencing such debt mature within the next year. Aggregate annual principal payments on debt associated with assets held for use for the next five years and thereafter, and debt associated with assets held for sale, are as follows (in thousands):

	Held For Sale	Held For Use	TOTAL
2014	$ 24,120	$ 14,244	$ 38,364
2015	0	24,819	24,819
2016	0	4,794	4,794
2017	0	42,975	42,975
2018	0	7,093	7,093
Thereafter	0	0	0
	$ 24,120	$ 93,925	$ 118,045

2014 Maturities

At December 31, 2013, we had $38.4 million of principal due in 2014. Of this amount, $31.5 million of the principal due is associated with either assets held for use or assets held for sale, and matures in 2014 pursuant to the notes and mortgages evidencing such debt. The remaining $6.9 million is associated with assets held for sale and is not contractually due in 2014 unless the related assets are sold. The maturities comprising the $31.5 million consist of:

- an $11.0 million balance on a revolving line of credit with Great Western Bank;
- a $15.5 million balance on a mortgage loan with GE Capital Franchise Finance LLC ("GE");
- a $1.8 million balance on a mortgage loan with GE; and
- approximately $3.2 million of principal amortization on mortgage loans.

The Company's plan is to refinance the debt with Great Western Bank. The seven hotels securing the loans with GE are held for sale, and if sold, we believe that the net proceeds from the sale of the hotels would be sufficient to satisfy the debt with GE. If the hotels are not sold, the Company will attempt to refinance the debt with GE. If we are unable to refinance our debt with GE, we may be forced to sell the hotels on disadvantageous terms which could compel us to file for reorganization.

2013 Transactions

On January 10, 2013, the Company obtained a $2.4 million loan from First State Bank in Fremont, Nebraska. The loan was secured by four hotels, two of which were subsequently sold, bears interest at 5.5%, and matures on September 1, 2016. Proceeds of the loan were used for general corporate purposes.

On February 13, 2013, the Company sold a Guesthouse Inn in Ellenton, Florida (63 rooms) for $1.26 million, and a Days Inn in Fredericksburg, Virginia (North) (120 rooms) for $2.05 million. Proceeds from the sales of the two properties were used to pay off the associated debt.

On February 21, 2013, the rate on the $2.9 million balance owed to Elkhorn Valley Bank was lowered from 6.25% to 5.50%.

On March 26, 2013, the Company amended its credit facilities with Great Western Bank to (a) extend the maturity date of the revolving credit facility from June 30, 2013 to June 30, 2014 and decrease the interest rate from 5.95% to 4.95% and (b) extend the maturity date of the term loans from June 30, 2013 to June 30, 2015 and decrease the interest rate from 6.00% to 5.00%.

On March 28, 2013, the Company paid $5.3 million on a loan with GE , using funds from the revolving credit facility with Great Western Bank, in exchange for the release of three Masters Inn properties, two of which were subsequently sold.

On April 18, 2013, the Company sold a Super 8 in Fort Madison, Iowa (40 rooms) for $1.1 million. Proceeds were used to pay off the associated debt.

On May 1, 2013, the Company sold a Masters Inn in Tuscaloosa, Alabama (151 rooms) for $1.7 million. Proceeds were used to reduce the balance of the revolving credit facility with Great Western Bank.

On May 20, 2013, the Company sold a Masters Inn in Savannah, Georgia (128 rooms) for $1.5 million. Proceeds were used to reduce the balance of the revolving credit facility with Great Western Bank.

On May 23, 2013, the Company sold a Super 8 in Pella, Iowa (40 rooms) for $0.7 million. Proceeds were used to pay off the associated debt.

On June 21, 2013, the Company sold a Masters Inn in Charleston, South Carolina (North) (150 rooms) for $1.2 million. Proceeds were used to pay off the associated debt.

On June 24, 2013, the Company sold a Super 8 in Columbus, Nebraska (63 rooms) for $1.2 million. Proceeds were used to pay off the associated debt.

On June 24, 2013, the Company sold a Masters Inn in Columbia, South Carolina (112 rooms) for $1.2 million. Proceeds were used to pay off the associated debt.

On June 24, 2013, the Company paid down the loan facility from GE by $5.3 million.

On June 27, 2013, the Company sold a Days Inn in Fredericksburg, Virginia (South) (156 rooms) for $1.8 million. Proceeds were used to pay off the associated debt.

On July 10, 2013, the Company sold a Masters Inn in Tampa, Florida (East) (117 rooms) for $0.8 million. Proceeds were applied to the line of credit with Great Western Bank.

On July 18, 2013, the Company sold a Quality Inn in Minocqua, Wisconsin (51 rooms) for $1.3 million. Proceeds were used to pay off the associated debt.

Our loan facilities with GE require us to maintain a minimum after dividend consolidated fixed charge coverage ratio (FCCR) (as defined in the loan agreement). As of June 30, 2013, our after dividend consolidated FCCR (as defined in the loan agreement) was 0.88:1 (versus the requirement of 0.95:1). On August 13, 2013, the Company received a waiver for non-compliance with this covenant as of June 30, 2013 in return for payment of $107,500. In connection with the waiver, our loan facilities with GE were also amended to increase the before dividend FCCR with respect to our GE encumbered properties from 1.05:1 to 1.20:1, commencing on September 30, 2013.

On August 22, 2013, the Company sold a Comfort Suites (69 rooms) and a Sleep Inn (63 rooms) in Louisville, Kentucky for a total of $4.0 million. Proceeds were used to reduce the balance of two loan facilities with GE.

On September 12, 2013, the Company sold a Super 8 in Jefferson City, Missouri (77 rooms) for $1.275 million. Proceeds were used to pay off the associated debt.

Our loan facilities with GE require us to maintain a minimum before dividend consolidated fixed charge coverage ratio (FCCR) (as defined in the loan agreement) and a minimum after dividend consolidated FCCR (as defined in the loan agreement). As of September 30, 2013, our before dividend consolidated FCCR (as defined in the loan agreement) was 1.09:1(versus the requirement of 1.10:1) and our after dividend consolidated FCCR (as defined in the loan agreement) was 0.84:1 (versus the requirement of 0.95:1). On November 13, 2013, the Company received a waiver for non-compliance with these covenants as of September 30, 2013, in return for payment of $190,000. In connection with the waiver, our loan facilities with GE were also amended to increase the minimum before dividend FCCR with respect to our GE-encumbered properties from 1.20:1 to 1.30:1, commencing on December 31, 2013, and decrease the maximum loan to value ratio with respect to our GE-encumbered properties from 75% to 72.2%, commencing on December 31, 2013.

On December 3, 2013, the Company sold a Masters Inn in Knox Abbott, South Carolina (109 rooms) for $0.4 million. Proceeds were applied to the line of credit with Great Western Bank.

On December 6, 2013 the Company obtained a loan from Middle Patent Capital, LLC in the amount of $8.3 million. The loan bears interest at 12.5%, matures in June 2015 and is secured by two hotels. Proceeds were used to refinance existing indebtedness, leaving one of the three previously pledged hotels unencumbered. The remainder of the proceeds were used for operations.

On December 11, 2013, the Company sold a Super 8 in Wayne, Nebraska (40 rooms) for $0.7 million. Proceeds were used to pay off the associated debt.

Financial Covenants

The key financial covenants for certain of our loan agreements and compliance calculations as of December 31, 2013 are discussed below (each such covenant is calculated pursuant to the applicable loan agreement). As of December 31, 2013, we were either in compliance with our financial covenants or obtained waivers for non-compliance (as discussed below). As a result, at December 31, 2013, we are not in default under the terms of any of our loans.

(Dollars in thousands) Great Western Bank Covenants	December 31, 2013 Requirement	December 31, 2013 Calculation
Consolidated debt service coverage ratio calculated as follows: *	≥1.05:1	
Adjusted NOI (A) / Debt service (B)		
Net loss per financial statements		$ (1,353)
Net adjustments per loan agreement		16,654
Adjusted NOI per loan agreement (A)		$ 15,301
Interest expense per financial statements - continuing operations		6,421
Interest expense per financial statements - discontinued operations		3,020
Total interest expense per financial statements		$ 9,441
Net adjustments per loan agreement		2,067
Debt service per loan agreement (B)		$ 11,508
Consolidated debt service coverage ratio		**1.33**

* Calculations based on prior four quarters

(Dollars in thousands) Great Western Bank Covenants	December 31, 2013	December 31, 2013	
Loan-specific debt service coverage ratio calculated as follows: *	Requirement ≥1.20:1	Calculation	
Adjusted NOI (A) / Debt service (B)			
Net loss per financial statements		$	(1,353)
Net adjustments per loan agreement			3,712
Adjusted NOI per loan agreement (A)		$	2,359
Interest expense per financial statements - continuing operations			6,421
Interest expense per financial statements - discontinued operations			3,020
Total interest expense per financial statements		$	9,441
Net adjustments per loan agreement			(7,752)
Debt service per loan agreement (B)		$	1,689
Loan-specific debt service coverage ratio			**1.40 : 1**

* Calculations based on prior four quarters

(Dollars in thousands) Great Western Bank Covenants	December 31, 2013	December 31, 2013	
Consolidated loan to value ratio calculated as follows:	Requirement ≤ 70.0%	Calculation	
Loan balance (A) / Value (B)			
Loan balance (A)		$	118,045
Value (B)		$	208,804
Consolidated loan to value ratio			56.5 %

(Dollars in thousands) Great Western Bank Covenants	December 31, 2013	December 31, 2013	
Loan-specific loan to value ratio calculated as follows:	Requirement ≤ 70.0%	Calculation	
Loan balance (A) / Value (B)			
Loan balance (A)		$	19,292
Value (B)		$	33,635
Loan-specific loan to value ratio			57.4 %

(Dollars in thousands)	December 31,	December 31,
Great Western Bank Covenants	2013	2013
Consolidated leverage ratio	Requirement	Calculation
calculated as follows:	≤ 4.25	
Total liabilities (A) / Tangible net worth (B)		
Total liabilities per financial statements		
and loan agreement (A)		$ 131,697
Total assets per financial statements		172,085
Total liabilities per financial statements		131,697
Tangible net worth per loan agreement (B)		$ 40,388
Consolidated Leverage Ratio		**3.26**

The credit facilities with Great Western Bank also require that we not pay dividends in excess of 75% of our funds from operations per year. The credit facilities currently consist of a $12.5 million revolving credit facility and term loans in the original principal amount of $10 million and $7.5 million. The credit facilities provide for $12.5 million of availability under the revolving credit facility, subject to the limitation that the loans available to us through the revolving credit facility and term loans may not exceed the lesser of (a) an amount equal to 70% of the total appraised value of the hotels securing the credit facilities and (b) an amount that would result in a loan-specific debt service coverage ratio of less than 1.20 to 1. At December 31, 2013, the revolving credit facility was fully available and the outstanding balance was $11.0 million.

(Dollars in thousands)	December 31,	December 31,
GE Covenants	2013	2013
Loan-specific fixed charge coverage ratio	Requirement	Calculation
calculated as follows: *	≥ 1.30:1	
Adjusted EBITDA (A) / Fixed charges (B)		
Net loss per financial statements		$ (1,353)
Net adjustments per loan agreement		6,712
Adjusted EBITDA per loan agreement (A)		$ 5,359
Interest expense per financial statements - continuing operations		6,421
Interest expense per financial statements - discontinued operations		3,020
Total interest expense per financial statements		$ 9,441
Net adjustments per loan agreement		(5,334)
Fixed charges per loan agreement (B)		$ 4,107
Loan-specific fixed charge coverage ratio		**1.30 : 1**

* Calculations based on prior four quarters

(Dollars in thousands) GE Covenants	December 31, 2013 Requirement	December 31, 2013 Calculation
Loan-specific loan to value ratio calculated as follows:	≤ 72.2%	
Loan balance (A) / Value (B)		
Loan balance (A)		$ 38,521
Value (B)		$ 55,120
Loan-specific loan to value ratio		**69.9 %**

(Dollars in thousands) GE Covenants	December 31, 2013 Requirement	December 31, 2013 Calculation
Before dividend consolidated fixed charge coverage ratio calculated as follows: *	≥ 1.20:1	
Adjusted EBITDA (A) / Fixed charges (B)		
Net loss per financial statements		$ (1,353)
Net adjustments per loan agreement		12,398
Adjusted EBITDA per loan agreement (A)		$ 11,045
Interest expense per financial statements - continuing operations		6,421
Interest expense per financial statements - discontinued operations		3,020
Total interest expense per financial statements		$ 9,441
Net adjustments per loan agreement		1,447
Fixed charges per loan agreement (B)		$ 10,888
Before dividend consolidated fixed charge coverage ratio		**1.01:1**

* Calculations based on prior four quarters

(Dollars in thousands)	December 31,		December 31,
GE Covenants	2013		2013
After dividend consolidated fixed charge	Requirement		Calculation
coverage ratio calculated as follows: *	≥ 1.00:1		
Adjusted EBITDA (A) / Fixed charges (B)			
Net loss per financial statements		$	(1,353)
Net adjustments per loan agreement			12,398
Adjusted EBITDA per loan agreement (A)		$	11,045
Interest expense per financial statements - continuing operations			6,421
Interest expense per financial statements - discontinued operations			3,020
Total interest expense per financial statements		$	9,441
Net adjustments per loan agreement			4,796
Fixed charges per loan agreement (B)		$	14,237
After dividend consolidated fixed charge coverage ratio			**0.78:1**

* Calculations based on prior four quarters

As of December 31, 2013, the Company was not in compliance with the GE before dividend consolidated fixed charge coverage ratio (FCCR) and the GE after dividend consolidated FCCR, but obtained waivers from GE as discussed further below.

Prior to the amendment discussed below, the financial covenants under our loan facilities with GE required that, through the term of the loans, we maintain: (a) a minimum before dividend FCCR with respect to our GE-encumbered properties (based on a rolling 12-month period) of 1.30:1 (b) a maximum loan to value ratio with respect to our GE-encumbered properties of 72.2% as of December 31, 2013, which requirement decreased periodically thereafter to 60% as of December 31, 2015; (c) a minimum before dividend consolidated FCCR (based on a rolling 12-month period) of 1.20:1 as of December 31, 2013, which requirement increased periodically thereafter to 1.30:1 as of December 31, 2014; and (d) a minimum after dividend consolidated FCCR (based on a rolling 12-month period) of 1.00:1.

As of December 31, 2013, our before dividend FCCR with respect to our GE-encumbered properties (as defined in the loan agreement) was 1.30:1, our before dividend consolidated FCCR (as defined in the loan agreement) was 1.01:1 and our after dividend consolidated FCCR (as defined in the loan agreement) was 0.78:1. Further, the Company does not currently project that it will be able to satisfy these covenants as of March 31, 2014. On March 14, 2014, the Company received a waiver for non-compliance with these covenants as of December 31, 2013 and March 31, 2014.

In connection with the waiver, our loan facilities with GE were also amended to require that, through the term of the loans, we maintain: (a) a minimum before dividend FCCR with respect to our GE-encumbered properties (based on a rolling 12-month period) of 1.10:1 as of June 30, 2014, which requirement increases periodically thereafter to 1.20:1 as of December 31, 2014; (b) a maximum loan to value ratio with respect to our GE-encumbered properties of 70% as of June 30, 2014, which requirement decreases periodically thereafter to 60% as of December 31, 2014; (c) a minimum before dividend consolidated FCCR (based on a rolling 12-month period) of 0.70:1 as of June 30, 2014, which requirement increases periodically thereafter to 1.00:1 as of December 31, 2014; and (d) a minimum after dividend consolidated FCCR (based on a rolling 12-month period) of 0.75:1 as of June 30, 2014, which requirement increases periodically thereafter to 1.00:1 as of December 31, 2014.

The GE amendment, among other things, also: (a) provides that the consolidated FCCRs are not required to be tested as of the end of any fiscal quarter if the loan to value ratio with respect to our GE-encumbered properties is 60% or less; (b) implements changes beneficial to the Company regarding release of collateral, prepayment fees and loan reamortizations; (c) requires that any variable rate loans remaining outstanding as of December 31, 2014 be converted to fixed rate loans bearing interest at 4.75%; and (d) requires payment of a $380,000 modification fee.

If we fail to pay our indebtedness when due, fail to comply with covenants or otherwise default on our loans, unless waived, we could incur higher interest rates during the period of such loan defaults, be required to immediately pay our indebtedness and ultimately lose our hotels through lender foreclosure if we are unable to obtain alternative sources of financing with acceptable terms. Our Great Western Bank and GE facilities contain cross-default provisions which would allow Great Western Bank and GE to declare a default and accelerate our indebtedness to them if we default on our other loans, and such default would permit that lender to accelerate our indebtedness under any such loan. We are not in default of any of our loans.

Acquisition of Hotels

There were no acquisitions made during 2013 or 2011.

On May 25, 2012, we acquired the wholly-owned property, Hilton Garden Inn in Dowell, Maryland. The fair value of the investment in hotel properties, included within the Consolidated Balance Sheet, is $11.5 million. Included in the consolidated statement of operations for the twelve months ended December 31, 2013 are total revenues of $3.3 million and total net income of $0.8 million. Included in the consolidated statement of operations for the twelve months ended December 31, 2012 are total revenues of $2.2 million and total net income of $0.6 million since the date of acquisition. Additionally, $0.2 million of acquisition costs are included in acquisition, termination expense.

Disposition of Hotels

Sale Date 2013	Hotel Location	Brand	Rooms		Sale Price (millions)
February	Fredericksburg, VA (North)	Days Inn	120	$	2.05
February	Ellenton, FL	Guesthouse Inn	63		1.30
April	Fort Madison, IA	Super 8	40		1.05
May	Tuscaloosa, AL	Masters Inn	151		1.70
May	Garden City, GA	Masters Inn	128		1.50
May	Pella, IA	Super 8	40		0.73
June	Charleston, SC	Masters Inn	150		1.18
June	Columbia, SC (I-26)	Masters Inn	112		1.15
June	Columbus, NE	Super 8	63		1.20
June	Fredericksburg, VA (South)	Days Inn	156		1.80
July	Tampa, FL (East)	Masters Inn	117		0.79
July	Minocqua, WI	Quality Inn	51		1.25
August	Louisville, KY	Comfort Suites	69		2.40
August	Louisville, KY	Sleep Inn	63		1.60
September	Jefferson City, MO	Super 8	77		1.30
December	Columbia, SC (Knox Abbott)	Masters Inn	109		0.40
December	Wayne, NE	Super 8	40		0.65
			1,549	$	22.05

In 2011, the company sold its corporate office building for $1.75 million, as well as 6 hotels for a total of $11.8 million. In 2012, a total of fifteen hotels with 1,250 rooms were sold for $25.47 million. Sale proceeds were primarily used to reduce debt.

Redemption of Preferred Operating Partnership Units

We own, through our subsidiary, Supertel Hospitality REIT Trust, an approximate 99% partnership interest in Supertel Limited Partnership, through which we own 44 of our hotels. We are the sole general partner of the limited partnership, and the remaining approximate 1% is held by limited partners who transferred property interests to us in return for limited partnership interests in Supertel Limited Partnership. These limited partners hold, as of December 31, 2013, 97,008 common operating partnership units. Each limited partner of Supertel Limited Partnership may, subject to certain limitations, require that Supertel Limited Partnership redeem all or a portion of his or her common units, at any time after a specified period following the date he or she acquired the units, by delivering a redemption notice to Supertel Limited Partnership. When a limited partner tenders his or her common units to the partnership for redemption, we can, in our sole discretion, choose to purchase the units for either (1) a number of our shares of common stock equal to the number of units redeemed (subject to certain adjustments) or (2) cash in an amount equal to the market value of the number of our shares of common stock the limited partner would have received if we chose to purchase the units for common stock. We anticipate that we generally will elect to purchase the common units for common stock.

Contractual Obligations

Below is a summary of certain obligations from continuing operations that will require capital (in thousands) as of December 31, 2013:

Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt, including interest	$ 109,028	$ 19,739	$ 37,029	$ 52,260	$ 0
Land leases	2,359	191	370	48	1,750
Other	0	0	0	0	0
Total contractual obligations	$ 111,387	$ 19,930	$ 37,399	$ 52,308	$ 1,750

The column titled Less Than 1 Year represents payments due for the balance of 2014. Long-term debt includes debt on properties classified in continued operations. The debt related to properties held for sale (and expected to be sold in the next 12 months, with the respective debt paid) of $24.1 million is not included in the table above.

We have various standing or renewable contracts with vendors. These contracts are all cancelable with immaterial or no cancellation penalties. Contract terms are generally one year or less. The land leases reflected in the table above represent continuing operations. In addition, the Company has two land leases associated with properties in discontinued operations. These two properties are expected to be sold in the next 12 months. The annual lease payments of $50,100 are not included in the table above. We also have management agreements with HMA, Strand, Kinseth, and Cherry Cove for the management and operation of our hotel properties.

Other

To maintain our REIT tax status, we generally must distribute at least 90% of our taxable income to our shareholders annually. In addition, we are subject to a 4% non-deductible excise tax if the actual amount distributed to shareholders in a calendar year is less than a minimum amount specified under the federal income tax laws. We have a general dividend policy of paying out approximately 100% of annual REIT taxable income. The actual amount of any future dividends will be determined by the Board of Directors based on our actual results of operations, economic conditions, capital expenditure requirements and other factors that the Board of Directors deems relevant.

Off Balance Sheet Financing Transactions

We have not entered into any off balance sheet financing transactions.

Critical Accounting Policies

Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex or subjective judgments. We have identified the following principal accounting policies that have a material effect on our consolidated financial statements:

Impairment of assets

Held For Use

In accordance with FASB ASC 360-10-35 *Property Plant and Equipment – Overall - Subsequent Measurement*, the Company analyzes its assets for impairment when events or circumstances occur that indicate the carrying amount may not be recoverable. As part of this process, the Company utilizes a two-step analysis to determine whether a trigger event (within the meaning of ASC 360-10-35) has occurred with respect to cash flow of, or a significant adverse change in business climate for, its hotel properties. Quarterly and annually the Company reviews all of its hotels to determine any property whose cash flow or operating performance significantly underperformed from budget or prior year, which the Company has set as a shortfall against budget or prior year as 15% or greater.

At year end the Company applies a second analysis on the entire held for use portfolio. The analysis estimates the expected future cash flows to identify any property whose carrying amount potentially exceeded the recoverable value. (Note that at the end of each quarter, this analysis is performed only on those properties identified in the 15% change analysis). In performing this year end analysis, the Company makes the following assumptions:

- Holding periods range from three to five years for non-core assets, and ten years for those assets considered as core.
- Cash flow from trailing twelve months for the individual properties multiplied by the holding period as noted above. The Company did not assume growth rates on cash flows as part of its step one analysis.
- A revenue multiplier for the terminal value based on an average of historical sales from a leading industry broker of like properties was applied according to the assigned holding period.

During the three months ended December 31, 2013, a trigger event, as described in ASC 360-10-35, occurred for two hotel properties held for use in which the carrying value of the hotel exceeded the sum of the undiscounted cash flows expected over its remaining anticipated holding period and from its disposition. The properties were then tested to determine if their carrying amounts were recoverable. When testing the recoverability for a property, in accordance with FASB ASC 360-10-35 35-29 *Property Plant and Equipment – Overall— Subsequent Measurement, Estimates of Future Cash Flows Used to Test a Long-Lived Asset for Recoverability,* the Company uses estimates of future cash flows associated with the individual properties over their expected holding period and eventual disposition. In estimating these future cash flows, the Company incorporates its own assumptions about its use of the hotel property and expected hotel performance. Assumptions used for the individual hotels were determined by management, based on discussions with our asset management group and our third party management companies. The properties were then subjected to a probability-weighted cash flow analysis as described in FASB ASC 360-10-55 *Property Plant and Equipment – Overall – Implementation.* In this analysis, the Company completed a detailed review of the hotels' market conditions and future prospects, which incorporated specific detailed cash flow and revenue multiplier assumptions over the remaining expected holding periods, including the probability that the property will be sold. Based on the results of this analysis, it was determined that the Company's investment in the subject properties was not fully recoverable; accordingly, impairment of $2.5 million was recognized.

To determine the amount of impairment on the hotel properties identified above, in accordance with FASB ASC 360-10-55, the Company calculated the excess of the carrying value of the properties in comparison to their fair value as of December 31, 2013. Based on this calculation, the Company determined total impairment of $2.5 million existed as of December 31, 2013 on two hotel properties. Fair value was determined with the assistance of independent real estate brokers and revenue multiples based on the Company's experience with hotel sales in the current year as well as available industry information, considered Level 3 inputs. As the fair value of the properties impaired for the quarter ending December 31, 2013 was determined in part by management estimates, a reasonable

possibility exists that future changes to inputs and assumptions could affect the accuracy of management's estimates and such future changes could lead to recovery of impairment or further possible impairment in the future. There was $0.2 million of impairment on one property subsequently reclassified as held for use.

During 2012, the analysis above was used to determine that a trigger event occurred for two of our held for use properties. In each case the carrying value of the hotel exceeded the sum of the undiscounted cash flows expected over its remaining anticipated holding period and from its disposition. Each property was then tested to determine if the carrying amount was recoverable using property specific assumptions. Based on the results of this analysis, it was determined that the Company's investment in the subject properties was not fully recoverable; accordingly, impairment of $3.1 million was recognized. There was $0.3 million of impairment recovery on one property subsequently reclassified as held for use.

During 2011, a trigger event occurred for two hotel properties held for use in which the carrying value of each hotel exceeded the sum of the undiscounted cash flows expected over its remaining anticipated holding period and from its disposition. The properties were then tested to determine if their carrying amounts were recoverable. Based on the results of this analysis, it was determined that the Company's investment in the subject properties was not fully recoverable; accordingly, impairment of $4.5 million was recognized.

Held For Sale

During 2013, Level 3 inputs were used to determine impairment losses of $4.7 million on eight held for sale properties and nine properties sold during 2013. Recovery of previously recorded impairment for which fair value exceeded management's previous estimates in the amount of $0.3 million was taken on two held for sale properties and seven properties at the time of sale.

During 2012, Level 3 inputs were used to determine impairment losses of $7.8 million on four held for sale properties and seventeen properties sold during 2012 and 2013. Recovery of previously recorded impairment for which fair value exceeded management's previous estimates in the amount of $0.4 million was taken on four properties at the time of sale and four properties subsequently sold.

During 2011, Level 3 inputs were used to determine impairment losses of $10.5 million on two held for sale properties and nineteen properties sold during 2011, 2012 and 2013. Recovery of previously recorded impairment for which fair value exceeded management's previous estimates in the amount of $0.2 million was taken on one property held for sale, and recovery of $0.5 million was taken on nine properties at the time of sale.

In accordance with ASC 360-10-35 *Property Plant and Equipment-Overall-Subsequent Measurement,* the Company determines the fair value of an asset held for sale based on the estimated selling price less estimated selling costs. We engage independent real estate brokers to assist us in determining the estimated selling price using a market approach. The estimated selling costs are based on our experience with similar asset sales.

For information on Level 3 inputs, refer to "Fair Value Measurements" in Note 1 to the Consolidated Financial Statements.

Acquisition of Hotel Properties

Upon acquisition, we allocate the purchase price of asset classes based on the fair value of the acquired real estate, furniture, fixtures and equipment, and intangible assets, if any. Our investments in hotel properties are carried at cost and are depreciated using the straight-line method over an estimated useful life of 15 to 40 years for buildings and building improvements and three to twelve years for furniture, fixtures and equipment. Renovations and/or replacements that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives.

We are required to make subjective assessments as to the useful lives and classification of our properties for purposes of determining the amount of depreciation expense to reflect each year with respect to those properties. These assessments have a direct impact on our net income. Should we change the expected useful life or classification of particular assets, it would result in a change in depreciation expense and annual net income.

Accounting for Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with GAAP. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis and for net operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in operations in the period that includes the enactment date. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management's evaluation of the need for a valuation allowance must consider positive and negative evidence, and the weight given to the potential effects of such positive and negative evidence is based on the extent to which it can be objectively verified. See Note 8 to the Consolidated Financial Statements for information on the tax valuation allowance for 2013 and 2012.

Related to accounting for uncertainty in income taxes, we follow a process by which the likelihood of a tax position is gauged based upon the technical merits of the position, perform a subsequent measurement related to the maximum benefit and the degree of likelihood, and determine the amount of benefit to be recognized in the financial statements, if any.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk Information

The market risk associated with financial instruments and derivative financial or commodity instruments is the risk of loss from adverse changes in market prices or rates. Our market risk arises primarily from interest rate risk relating to variable rate borrowings. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows. In order to achieve this objective, we have used both long term fixed rate loans and variable rate loans from institutional lenders to finance our hotels. We are not currently using derivative financial or commodity instruments to manage interest rate risk.

Management monitors our interest rate risk closely. The table below presents the annual maturities, weighted average interest rates on outstanding debt, excluding debt related to hotel properties held for sale, at the end of each year and fair values required to evaluate the expected cash flows under debt and related agreements, and our sensitivity to interest rate changes at December 31, 2013. Information relating to debt maturities is based on expected maturity dates and is summarized as follows (in thousands):

	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value
Fixed Rate Debt	$ 13,707	$ 24,259	$ 4,212	$ 42,370	$ 0	$ 0	$ 84,548	$ 73,601
Average Interest Rate	7.30%	6.80%	6.10%	5.70%	0.00%	0.00%	6.43%	
Variable Rate Debt	$ 538	$ 559	$ 582	$ 605	$ 7,093	$ 0	$ 9,377	$ 9,377
Average Interest Rate	3.90%	3.90%	3.91%	3.90%	3.90%	0.00%	4.03%	

As the table incorporates only those exposures that exist as of December 31, 2013, it does not consider exposures or positions that could arise after that date. As a result, our ultimate change in interest expense with respect to interest rate fluctuations would depend on the exposures that arise after December 31, 2013.

If market rates of interest on the Company's variable rate long-term debt fluctuate by 1.0%, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows by $0.1 million annually. This assumes that the amount outstanding under the Company's held for use variable rate debt remains at $9.4 million, the balance as of December 31, 2013.

Item 8. Financial Statements and Supplementary Data

SUPERTEL HOSPITALITY, INC. AND SUBSIDIARIES
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Supertel Hospitality, Inc.:

We have audited the accompanying consolidated balance sheets of Supertel Hospitality, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, equity, and cash flows for each of the years in the three-year period ended December 31, 2013. In connection with our audits of the consolidated financial statements, we have also audited the related financial statement schedule, Schedule III – Real Estate and Accumulated Depreciation. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Supertel Hospitality, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a substantial amount of debt maturing in 2014 for which the Company does not have committed funding sources. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(signed) KPMG LLP

Omaha, Nebraska
March 17, 2014

Supertel Hospitality, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share and share data)

	As of December 31, 2013	As of December 31, 2012
ASSETS		
Investments in hotel properties	$ 202,588	$ 202,224
Less accumulated depreciation	69,715	65,562
	132,873	136,662
Cash and cash equivalents	45	891
Accounts receivable, net of allowance for doubtful accounts of $20 and $201	1,083	2,070
Prepaid expenses and other assets	4,000	5,151
Deferred financing costs, net	2,601	2,644
Investment in hotel properties, held for sale, net	31,483	54,429
	$ 172,085	$ 201,847
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable, accrued expenses and other liabilities	$ 7,745	$ 8,778
Derivative liabilities, at fair value	5,907	15,935
Debt related to hotel properties held for sale	24,120	43,312
Long-term debt	93,925	89,509
	131,697	157,534
Redeemable preferred stock		
10% Series B, 800,000 shares authorized; $.01 par value, 332,500 shares outstanding, liquidation preference of $8,312	7,662	7,662
SHAREHOLDERS' EQUITY		
Preferred stock, 40,000,000 shares authorized;		
8% Series A, 2,500,000 shares authorized, $.01 par value, 803,270 shares outstanding, liquidation preference of $8,033	8	8
6.25% Series C, 3,000,000 shares authorized, $.01 par value, 3,000,000 shares outstanding, liquidation preference of $30,000	30	30
Common stock, $.01 par value, 200,000,000 shares authorized; 2,897,539 and 2,893,241 shares outstanding	29	29
Common stock warrants	0	252
Additional paid-in capital	135,293	134,994
Distributions in excess of retained earnings	(102,747)	(98,777)
Total shareholders' equity	32,613	36,536
Noncontrolling interest in consolidated partnership, redemption value $87 and $99	113	115
Total equity	32,726	36,651
	$ 172,085	$ 201,847

See accompanying notes to consolidated financial statements.

Supertel Hospitality, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years ended December 31, 2013	2012	2011
REVENUES			
Room rentals and other hotel services	$ 56,163	$ 58,205	$ 55,127
EXPENSES			
Hotel and property operations	44,156	43,373	41,426
Depreciation and amortization	6,517	6,591	6,599
General and administrative	3,923	3,908	3,884
Acquisition, termination expense	713	240	124
Equity offering expense	1,050	0	0
Termination cost	0	0	540
	56,359	54,112	52,573
EARNINGS (LOSS) BEFORE NET GAINS (LOSSES) ON DISPOSITIONS OF ASSETS, OTHER INCOME, INTEREST EXPENSE, AND INCOME TAXES	$ (196)	$ 4,093	$ 2,554
Net gain (loss) on dispositions of assets	(47)	3	1,133
Other income (loss)	10,062	(144)	107
Interest expense	(5,963)	(5,691)	(5,860)
Loss on debt extinguishment	(458)	(138)	(70)
Impairment	(2,666)	(2,833)	(4,523)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	$ 732	$ (4,710)	$ (6,659)
Income tax (benefit) expense	0	6,437	(160)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	$ 732	$ (11,147)	$ (6,499)
Gain (loss) from discontinued operations	(2,085)	927	(10,978)
NET (LOSS)	$ (1,353)	$ (10,220)	$ (17,477)
Noncontrolling interest income	2	10	32
NET (LOSS) ATTRIBUTABLE TO CONTROLLING INTERESTS	$ (1,351)	$ (10,210)	$ (17,445)
Preferred stock dividend declared and undeclared	(3,349)	(3,169)	(1,474)
NET (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (4,700)	$ (13,379)	$ (18,919)
NET EARNINGS (LOSS) PER COMMON SHARE - BASIC AND DILUTED			
EPS from continuing operations	(0.91)	(4.96)	(2.77)
EPS from discontinued operations	(0.72)	0.32	(3.82)
EPS Basic and Diluted	$ (1.63)	$ (4.64)	$ (6.59)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS			
Income from continuing operations, net of tax	(2,616)	(14,305)	(7,988)
Discontinued operations, net of tax	(2,084)	926	(10,931)
Net earnings (loss)	$ (4,700)	$ (13,379)	$ (18,919)

See accompanying notes to consolidated financial statements.

Supertel Hospitality, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)

	Years ended December 31, 2013, 2012, and 2011								
	Preferred A Stock	Preferred C Stock	Common Stock Warrants	Common Stock	Additional Paid-In Capital	Distributions in Excess of Retained Earnings	Total Shareholder Equity	Noncontrolling Interest	Total Equity
Balance at January 1, 2011	$ 8	$ 0	$ 252	$ 29	$ 121,584	$ (66,479)	$ 55,394	$ 335	$ 55,729
Deferred compensation	0	0	0	0	29	0	29	0	29
Common stock offerings	0	0	0	0	89	0	89	0	89
Conversion of OP Units	0	0	0	0	119	0	119	(119)	0
Preferred dividends	0	0	0	0	0	(1,474)	(1,474)	0	(1,474)
Net loss	0	0	0	0	0	(17,445)	(17,445)	(81)	(17,526)
Balance at December 31, 2011	$ 8	$ 0	$ 252	$ 29	$ 121,821	$ (85,398)	$ 36,712	$ 135	$ 36,847
Stock-based compensation	0	0	0	0	44	0	44	0	44
Preferred stock offering	0	30	0	0	13,129	0	13,159	0	13,159
Conversion of OP Units	0	0	0	0	0	0	0	0	0
Preferred dividends	0	0	0	0	0	(3,169)	(3,169)	0	(3,169)
Net loss	0	0	0	0	0	(10,210)	(10,210)	(20)	(10,230)
Balance at December 31, 2012	$ 8	$ 30	$ 252	$ 29	$ 134,994	$ (98,777)	$ 36,536	$ 115	$ 36,651
Stock-based compensation	0	0	0	0	47	0	47	0	47
Warrant expiration	0	0	(252)	0	252	0	0	0	0
Preferred dividends declared	0	0	0	0	0	(2,619)	(2,619)	0	(2,619)
Net loss	0	0	0	0	0	(1,351)	(1,351)	(2)	(1,353)
Balance at December 31, 2013	$ 8	$ 30	$ 0	$ 29	$ 135,293	$ (102,747)	$ 32,613	$ 113	$ 32,726

See accompanying notes to consolidated financial statements.

Supertel Hospitality, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (1,353)	$ (10,220)	$ (17,477)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	7,294	8,788	9,996
Amortization of intangible assets and deferred financing costs	1,115	628	469
Net gains on dispositions of assets	(1,806)	(7,833)	(1,452)
Stock-based compensation expense	56	44	29
Provision for impairment loss	7,086	10,172	14,308
Unrealized (gain) loss on derivative instruments	(10,028)	247	0
Amortization of warrant issuance cost	58	53	0
Deferred income taxes	0	5,610	(1,904)
Changes in operating assets and liabilities:			
(Increase) decrease in assets	593	1,192	6,185
Increase (decrease) in liabilities	(998)	(2,098)	(7,289)
Net cash provided by operating activities	2,017	6,583	2,865
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to hotel properties	(5,133)	(8,462)	(4,964)
Acquisition and development of hotel properties	0	(11,500)	0
Proceeds from sale of hotel assets	20,746	24,185	13,111
Net cash provided by investing activities	15,613	4,223	8,147
CASH FLOWS FROM FINANCING ACTIVITIES:			
Deferred financing costs	(1,081)	(2,422)	(331)
Principal payments on long-term debt	(34,033)	(61,204)	(24,426)
Proceeds from long-term debt, net	10,671	39,172	20,610
Payments on revolving debt	(38,478)	(31,897)	(51,708)
Proceeds from revolving debt	47,064	20,905	46,359
Redemption of operating partnership units	0	(114)	(397)
Distributions to noncontrolling interest	0	(10)	(49)
Preferred stock offering	0	28,806	0
Common stock offering	0	0	89
Dividends paid	(2,619)	(3,430)	(1,213)
Net cash used in financing activities	(18,476)	(10,194)	(11,066)
Increase (decrease) in cash and cash equivalents	(846)	612	(54)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	891	279	333
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 45	$ 891	$ 279
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid, net of amounts capitalized	$ 8,496	$ 9,640	$ 11,953
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Dividends declared	$ 3,349	$ 3,169	$ 1,474

See accompanying notes to consolidated financial statements.

Supertel Hospitality, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013, 2012 and 2011
(Dollars in thousands, except per share data)

Note 1. Organization and Summary of Significant Accounting Policies

Description of Business

Supertel Hospitality, Inc. (SHI) was incorporated in Virginia on August 23, 1994. SHI is a self-administered real estate investment trust (REIT) for federal income tax purposes.

SHI, through its wholly owned subsidiaries, Supertel Hospitality REIT Trust and E&P REIT Trust (collectively, the "Company") owns a controlling interest in Supertel Limited Partnership ("SLP") and E&P Financing Limited Partnership ("E&P LP"). All of the Company's interests in 59 properties with the exception of furniture, fixtures and equipment on 48 properties held by TRS Leasing, Inc. and its subsidiaries are held directly or indirectly by E&P LP, SLP or Solomons Beacon Inn Limited Partnership (SBILP) (collectively, the "Partnerships"). The Company's interests in ten properties are held directly by either SPPR-Hotels, LLC (SHLLC), SPPR-South Bend, LLC (SSBLLC), SPPR-BMI, LLC (SBMILLC), BMI Alexandria, LLC (BAL) or SPPR-Dowell, LLC (SDLLC). SHI, through Supertel Hospitality REIT Trust, is the sole general partner in SLP and at December 31, 2013 owned approximately 99% of the partnership interests in SLP. SLP owns 100% of Solomons GP, LLC, and Solomons GP, LLC is the general partner in SBILP. At December 31, 2013, SLP and SHI owned 99% and 1% interests in SBILP, respectively, and SHI owned 100% of Supertel Hospitality Management, Inc, SPPR Holdings, Inc. (SPPRHI), SPPR-BMI Holdings, Inc. (SBMIHI), BMI Alexandria Holdings, Inc. (BAHI) and SPPR-Dowell Holdings, Inc. (SDHI). SLP and SBMIHI owned 99% and 1% of SBMILLC, respectively, SLP and SPPRHI owned 99% and 1% of SHLLC, respectively, SLP owned 100% of SSBLLC, SLP and BAHI owned 99% and 1% of BAL, respectively, and SLP and SDHI owned 99% and 1% of SDLLC, respectively. References to "we", "our", and "us" herein refer to Supertel Hospitality, Inc., including as the context requires, its direct and indirect subsidiaries.

As of December 31, 2013, the Company owned 69 limited service hotels. All of the hotels are leased to our wholly owned taxable REIT subsidiary, TRS Leasing, Inc. ("TRS"), and its wholly owned subsidiaries (collectively "TRS Lessee"), and are managed by Hospitality Management Advisors, Inc. ("HMA"), Strand Development Company LLC ("Strand"), Kinseth Hotel Corporation ("Kinseth") and Cherry Cove Hospitality Management, LLC ("Cherry Cove").

The hotel management agreement, as amended, between TRS Lessee and Royco Hotels, the previous manager of 95 of the Company's hotels, was terminated effective May 31, 2011. Under the agreement, Royco Hotels received a base management fee ranging from 4.25% to 3.0% of gross hotel revenues as revenues increased above thresholds that ranged from up to $75,000 to over $100,000, and was entitled, if earned, to an annual incentive fee of 10% of up to the first $1,000 of annual net operating income in excess of 10% of the Company's investment in the hotels, and 20% of the excess above $1,000. On March 25, 2011, Royco Hotels and the Company settled a lawsuit filed by Royco Hotels against the Company. A settlement agreement between the parties with respect to a lawsuit and with respect to termination fees for sold hotels provided that the Company pay an aggregate of $590 in varying amounts of installments through July 1, 2013 to Royco Hotels.

On April 21, 2011, the Company through TRS Lessee entered into separate management agreements with HMA, Strand and Kinseth as eligible independent contractors to manage 95 of the Company's hotels (two of which were subsequently sold) commencing June 1, 2011. These hotels were previously managed by Royco Hotels. On May 25, 2012, SLP acquired a Hilton Garden Inn in Dowell, Maryland. In connection with the acquisition, the Company, through TRS, entered into a separate management agreement with Cherry Cove as an eligible independent operator to manage the hotel.

HMA manages 18 Company hotels in Arkansas, Louisiana, Kentucky, Indiana, Virginia and Florida. Strand manages the Company's seven economy extended-stay hotels in Georgia and South Carolina as well as 13 additional Company hotels located in Georgia, Maryland, North Carolina, Pennsylvania, Tennessee, Virginia, and West Virginia. Kinseth manages 30 Company hotels in eight states primarily in the Midwest. Cherry Cove manages one hotel in Maryland. Each of the management agreements with HMA, Strand and Kinseth expire on May 31, 2014, and the management agreement with Cherry Cove expires on May 24, 2015. The management agreements renew for additional terms of one year unless either party to the agreement gives the other party written notice of termination at least 90 days before the end of a term.

Each of HMA, Strand, Kinseth and Cherry Cove receives a monthly management fee with respect to the hotels they manage equal to 3.5% of the gross hotel revenue and 2.25% of hotel net operating income ("NOI"). NOI is equal to gross hotel income less operating expenses (exclusive of management fees, certain insurance premiums and employee bonuses, and personal and real property taxes).

TRS, the lessee of the hotels, entered into a management agreement with HLC Hotels ("HLC"), an affiliate of the sellers of the Masters hotels. The management agreement, as amended, provided for HLC to operate and manage the hotels and receive management fees equal to 5.0% of the gross revenues derived from the operation of the hotels and incentive fees equal to 10% of the annual operating income of the hotels in excess of 10.5% of the Company's investment in the hotels. The agreement was terminated on December 3, 2013, with the sale of the remaining Masters Inn in Knox Abbott, South Carolina.

The management agreements generally require TRS Lessee to fund debt service, working capital needs, capital expenditures and third-party operating expenses for the management companies excluding those expenses not related to the operation of the hotels. TRS Lessee is responsible for obtaining and maintaining insurance policies with respect to the hotels.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Partnerships and the TRS Lessee. All significant intercompany balances and transactions have been eliminated in consolidation.

Estimates, Risks and Uncertainties

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses recognized during the reporting period. The significant estimates pertain to impairment analysis, allocation of purchase price, and derivative valuation. Actual results could differ from those estimates.

Because of the adverse conditions that exist in the real estate markets, as well as the credit and financial markets, it is possible that the estimates and assumptions that have been utilized in the preparation of the consolidated financial statements could change. Specifically as it relates to the Company's business, the recent economic conditions are expected to continue to negatively affect the Company's operating performance, as well as its liquidity position.

Liquidity

Our operating performance, as well as our liquidity position, has been and continues to be negatively affected by economic conditions, many of which are beyond our control. Our income and ability to meet our debt service obligations, and make distributions to our shareholders, depends upon the operations of the hotels being

conducted in a manner that maintains or increases revenue, or reduces expenses, to generate sufficient hotel operating income for TRS Lessee to pay the hotels' operating expenses, including management fees and rents to us. We depend on rent payments from TRS Lessee to pay our operating expenses and debt service and to make distributions to shareholders.

To improve liquidity and implement our plan to transition from economy hotels and move toward upscale and upper midscale hotels, the Company pursued a public offering in the third quarter 2013. On September 26, 2013, based on market conditions, pricing expectations, and after discussions with the underwriters, the Company withdrew and terminated its previously announced proposed public offering of 16,700,000 shares of Common Stock.

The costs of this offering and its failure to be completed have had a severe impact on the Company's liquidity. The Company is exploring other methods to satisfy its liquidity needs, but to date has not been able to complete a transaction that will provide sufficient liquidity to satisfy its operating and capital needs for the next twelve months. There can be no assurance that the Company will be able to obtain sufficient liquidity to continue to operate through 2014. Failure to obtain adequate liquidity may cause the Company to dispose of assets at unfavorable prices, delay or default in paying its obligations, seek legal protection while attempting to reorganize or cease operations entirely.

Our business requires continued access to adequate capital to fund our liquidity needs. In February 2012, the Company issued 3.0 million shares of Series C convertible preferred stock which provided $28.6 million of net proceeds. The Company agreed to use $25 million to pursue hotel acquisitions. We have used $6.6 million to purchase a hotel and remain committed to use $18.4 million for additional hotel acquisitions. As of February 28, 2014, we have used $9.1 million for debt repayment and $3.7 million for operational funds from the proceeds committed to hospitality acquisitions. There are no contractual restrictions or penalties related to the use of these funds for purposes other than acquisitions. The Company is obligated to replace these funds promptly as it has the ability to do so. The Company is exploring opportunities to satisfy its long term liquidity needs as well as replenish the acquisitions fund. There can be no assurance that the Company will be able to obtain the funding to replace these funds.

Each year the Company reviews its entire portfolio, identifies properties considered non-core and develops timetables for disposal of those assets deemed non-core. We focus on improving our liquidity through cash generating asset sales and disposition of assets that are not generating cash at levels consistent with our investment principles. Currently, our foremost priorities continue to be preserving and generating capital sufficient to fund our liquidity needs. Given the deterioration and uncertainty in our financial performance, the economy and financial markets, management believes that access to conventional sources of capital will be challenging and may not be obtainable. We are working to proactively address challenges to our short-term and long-term liquidity position.

The following are the expected actual and potential sources of liquidity, which if realized we currently believe will be sufficient to fund our near and long-term obligations:

- Cash and cash equivalents;
- Cash generated from operations;
- Proceeds from asset dispositions;
- Proceeds from additional secured or unsecured debt financings; and/or
- Proceeds from public or private issuances of debt or equity securities.

The Company has significant indebtedness maturing during 2014, including a revolving line of credit with Great Western Bank ($11.0 million balance at December 31, 2013) and $17.3 million of mortgage loans with GE Franchise Finance Commercial LLC ("GE"). The Company's plan is to refinance the debt. If we are not successful in negotiating the refinancing of this debt or finding alternate sources of financing, we will be unable to meet the Company's near-term liquidity requirements. The seven hotels securing the GE loans are held for sale, and if sold, the Company believes that the net proceeds from the sale of the hotels would be sufficient to satisfy the debt with GE. If the hotels are not sold, the Company will attempt to refinance the debt with GE. If we are unable to refinance our debt with GE, we may be forced to dispose of the seven hotels on disadvantageous terms, which could compel us to file for reorganization.

These above sources are essential to our liquidity and financial position, and we cannot assure you that we will be able to successfully access them (particularly in the current economic environment). If we are unable to generate cash from these sources, we may have liquidity-related capital shortfalls and will be exposed to default risks. The significant issues with access to the liquidity sources identified above could lead to our insolvency.

In the near-term, the Company's cash flow from operations is not projected to be sufficient to meet all of our liquidity needs. In response, management has identified non-core assets in our portfolio to be liquidated over a one to ten year period. Among the criteria for determining properties to be sold was the potential upside when hotel fundamentals return to stabilized levels. The 19 properties held for sale as of December 31, 2013 were determined to be less likely to participate in increased cash flow levels when markets do improve. As such, we expect these dispositions to help us (1) preserve cash, through potential disposition of properties with current or projected negative cash flow and/or other potential near-term cash outlay requirements (including debt maturities) and (2) generate cash, through the potential disposition of strategically identified non-core assets that we believe have equity value above debt.

We are actively marketing the 19 properties held for sale, which we anticipate will result in the elimination of an estimated $24.1 million of debt. However, some of these hotels' markets have experienced a decrease in expected pricing. We may be unable to complete the disposition of identified properties in a manner that would generate cash flow in line with management's estimates as noted above. Our ability to dispose of these assets is impacted by a number of factors. Many of these factors are beyond our control, including general economic conditions, availability of financing and interest rates. In light of the current economic conditions, we cannot predict:

- whether we will be able to find buyers for identified assets at prices and/or other terms acceptable to us;
- whether potential buyers will be able to secure financing; and
- the length of time needed to find a buyer and to close the sale of a property.

As our debt matures, our principal payment obligations also present significant future cash requirements. We expect lenders will continue to maintain tight lending standards, which could make it more difficult for us to obtain future credit facilities or loans on terms similar to the terms of our current credit facilities and loans or to obtain long-term financing on favorable terms or at all.

We may not be able to successfully extend, refinance or repay our debt due to a number of factors, including decreased property valuations, limited availability of credit, tightened lending standards and deteriorating economic conditions. Historically, extending or refinancing loans has required the payment of certain fees to, and expenses of, the applicable lenders. Any future extensions or refinancing will likely require increased fees due to tightened lending practices. These fees and cash flow restrictions will affect our ability to fund other liquidity uses. In addition, the terms of the extensions or refinancing may include operational and financial covenants significantly more restrictive than our current debt covenants.

The Company is required to meet various financial covenants required by its existing lenders. If the Company's future financial performance fails to meet these financial covenants, then its lenders also have the ability to take control of its encumbered hotel assets. Defaults with lenders due to failure to repay or refinance debt when due or failure to comply with financial covenants could also result in defaults under our facilities with Great Western Bank and GE. Our Great Western Bank and GE facilities contain cross-default provisions which would allow Great Western Bank and GE to declare a default and accelerate our indebtedness to them if we default on our other loans, and such default would permit that lender to accelerate our indebtedness under any such loan. If this were to happen, whether due to failure to repay or refinance debt when due or failure to comply with financial covenants, the Company's ability to conduct business could be severely impacted as there can be no assurance that the adequacy and timeliness of cash flow would be available to meet the Company's liquidity requirements. Should the Company be unable to maintain compliance with financial covenants, we will be required to seek waivers or, where allowed, cure the violation through additional principal payments. There is no assurance that the Company will be able to obtain waivers, or cure defaults with additional principal payments, if needed. The Company has in the past obtained waivers and modifications of its financial covenants with certain of its lenders in order to avoid defaults; however, there is no certainty that the Company could obtain waivers or modifications in the future, if the need arises.

The Company did not declare a common stock dividend during 2013 or 2012. In December 2013, the Company announced the suspension of the regular dividends on its outstanding preferred stock to preserve capital and improve liquidity. The Company will monitor requirements to maintain its REIT status and will routinely evaluate the dividend policy.

Sources and Uses of Cash

From 2004 to 2008 Supertel purchased 56 hotels. Those hotels on average were older than 18 years, and several were non-branded. When the economic recession occurred in 2008, severely impacting the hotel industry, our hotels' performance declined, the values of the hotels declined and as a result loan to values increased, creating issues with our lenders. With reduced operating performance, high debt levels, and older hotels that required higher than average maintenance, the property operating income was not sufficient to cover all expenses, debt service, capital expenditures and payment of preferred dividends. Since the economic downturn, management has focused on divesting the Company of non-core hotels and reducing debt, while developing a new strategic direction to transition Supertel out of the economy hotel sector, into the upscale and upper midscale sectors.

Over the past year average hotel market metrics have improved. The improvement has been primarily in the top ten markets; however, in the Washington DC area, the secondary and tertiary markets where many of our hotels are concentrated, the markets' metrics have lagged the recovery. We have made progress in reducing our debt and divesting ourselves of some of the non-core hotels, but because of our challenged cash position, certain of the remaining hotels have not been recently renovated, and as a result we have not kept pace with contemporary standards. In addition, in 2013 we experienced rebranding at four hotels to brands lower in the chain scale that charge lower daily rates and require new reservation systems which will take time to stabilize. With our markets not yet recovered and the impact of reflagging, our operating cash flow has continued to be insufficient to cover capital requirements, debt service and dividends. To date we have relied upon proceeds from sales of our non-core hotels and proceeds from our Preferred C offering to cover these shortfalls.

At December 31, 2013, available cash was $45,000 and the Company's available borrowing capacity on the Great Western Bank revolver was $1.5 million. Hotel revenues and operating results are greater in the second and third quarters than in the first and fourth quarters. As a result, we may have to enter into short-term borrowings in our first and fourth quarters in order to offset these fluctuations in revenues. There is no assurance that we will be successful in obtaining such short-term borrowings. As noted above, at December 31, 2013, cash flows from operations, the Great Western Bank revolver and the sources identified above are not expected to be sufficient to meet both short term and long term liquidity requirements.

We completed a private offering of 3.0 million shares of Series C convertible preferred stock in February 2012. Net proceeds of the offering, less expenses, were approximately $28.6 million. We agreed to use $25 million of the net proceeds to pursue hotel acquisitions which are consistent with the investment strategy of the Company's Board of Directors. In February 2012, a portion of the net proceeds were used to pay down the Great Western Bank revolver to $0. $6.6 million of the net proceeds have been used in the acquisition of a 100 room Hilton Garden Inn in Dowell, Maryland in May 2012. We used an additional $0.6 million of net proceeds on costs associated with proposed acquisitions then under consideration.

The Great Western Bank revolver is a source of funds for our obligation to RES to use proceeds from the sale of the Series C convertible preferred stock for hotel acquisitions. Borrowings from the Great Western Bank revolver for GE debt payments due on December 31, 2012 ($3.8 million) and for operational funds in 2013 ($3.7 million) were made with RES's consent. The Company anticipates additional borrowings from the Great Western Bank revolver with RES's consent for operational funds until revenues and operating results improve. We have agreed with RES to replace those funds when we are able to do so, so that the replacement funds can be available for hotel acquisitions.

Short term outflows include monthly operating expenses, estimated annual debt service for 2014 of $10.0 million, and, if declared, the payment of dividends on Series A and Series B preferred stock, and Series C convertible preferred stock. Our long-term liquidity requirements consist primarily of the costs of renovations and other non-recurring capital expenditures that need to be made periodically with respect to hotel properties, and funds for acquisitions.

We have budgeted $6.0 million for capital improvements on our existing hotels during 2014. The increase in capital expenditures is a result of complying with brand mandated improvements and initiating projects that we believe will generate a return on investment. We may not have sufficient liquidity to complete the budgeted capital improvements.

In addition, management has identified noncore assets in our portfolio to be liquidated over a one to ten year period. We project that proceeds from anticipated property sales during 2014, net of expenses and debt repayment, of $6.4 million will be available for the Company's cash needs. We project that our operating cash flow, Great Western Bank revolver and, if realized, the sources identified above will not be sufficient to satisfy all of our liquidity and other capital needs for 2014.

Because our operating income and proceeds on sales of non core hotels have been inadequate to cover working capital requirements, we have used funds for operations that were previously identified by RES for acquisitions for operating and debt service requirements and recently secured a $2.0 million loan in January 2014 from RES to meet near term cash needs. This loan alone is not sufficient to meet our current cash requirements and we will need additional funds over the short term until we are able to access longer term funding sources as identified above. We cannot be assured these sources will be available and if they are not available, we may dispose of assets at unfavorable prices, delay or default in paying our obligations, seek legal protection while attempting to reorganize or cease operations entirely.

The Company has suffered recurring losses from operations and has a substantial amount of debt maturing in 2014 for which the Company does not have committed funding sources. Our ability to continue as a going concern is dependent on many factors, including, among other things, improvements in our operating results, our ability to sell properties, and our ability to refinance maturing debt. If our plans to access capital are unsuccessful, these conditions raise substantial doubt about the Company's ability to continue as a going concern.

Capitalization Policy

Development and construction costs of properties in development are capitalized including, where applicable, direct and indirect costs, including real estate taxes and interest costs. Development and construction costs and costs of significant improvements, replacements, renovations to furniture and equipment expenditures for hotel properties are capitalized while costs of maintenance and repairs are expensed as incurred.

Deferred Financing Cost

Direct costs incurred in financing transactions are capitalized as deferred costs and amortized to interest expense over the term of the related loan using the effective interest method.

Investment in Hotel Properties

Upon acquisition, the Company allocates the purchase price of assets to asset classes based on the fair value of the acquired real estate, furniture, fixtures and equipment, and intangible assets, if any. The Company's investments in hotel properties are carried at cost and are depreciated using the straight-line method over an estimated useful life of 15 to 40 years for buildings and three to twelve years for furniture, fixtures and equipment.

The Company periodically reviews the carrying value of each hotel to determine if circumstances exist indicating impairment to the carrying value of the investment in the hotel or that depreciation periods should be modified. If facts or circumstances support the possibility of impairment, the Company will prepare an estimate of the undiscounted future cash flows, without interest charges, of the specific hotel and determine if the investment in such hotel is recoverable based on the undiscounted future cash flows. If impairment is indicated, an adjustment will be made to the carrying value of the hotel to reflect the hotel at fair value.

In accordance with the provisions of FASB ASC 360-10-45 *Property, Plant, and Equipment - Overall - Other Presentation Matters,* a hotel is considered held for sale when a contract for sale is entered into, a substantial, non refundable deposit has been committed by the purchaser, and sale is expected to occur within one year, or if management has determined to sell the property within one year. Depreciation of these properties is discontinued at that time, but operating revenues, other operating expenses and interest continue to be recognized until the date of sale. Revenues and expenses of properties that are classified as held for sale or sold are presented as discontinued operations for all periods presented in the statements of operations if the properties will be or have been sold on terms where the Company has limited or no continuing involvement with them after the sale. If active marketing ceases or the properties no longer meet the criteria to be classified as held for sale, the properties are reclassified as operating and measured at the lower of their (a) carrying amount before the properties were classified as held for sale, adjusted for any depreciation expense that would have been recognized had the properties been continuously classified as operating or (b) their fair value at the date of the subsequent decision not to sell.

Gains on sales of real estate are recognized in accordance with FASB ASC 360-20 *Property, Plant, and Equipment – Real Estate Sales* ("ASC 360-20"). The specific timing of the sale is measured against various criteria of ASC 360-20 related to the terms of the transactions and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria are not met, the gain is deferred and the finance, installment or cost recovery method, as appropriate, is applied until the sales criteria are met. To the extent we sell a property and retain a partial ownership interest in the property, we generally recognize gain to the extent of the third party ownership interest in accordance with ASC 360-20.

Cash and Cash Equivalents

Cash and cash equivalents include cash and various highly liquid investments with original maturities of three months or less when acquired, and are carried at cost which approximates fair value.

The Company identified that it had misclassified cash flows associated with property improvement escrows included in the 2012 consolidated financial statements. The Company has corrected those amounts in the accompanying consolidated financial statements. The cash flows from operations previously reported were $3,789 and have been revised to $6,583. The cash flows from investing activities previously reported were $7,017 and have been revised to $4,223.

Revenue Recognition

Revenues from the operations of the hotel properties are recognized when earned. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of operations.

Income Taxes

The Company qualifies and intends to continue to qualify as a REIT under applicable provisions of the Internal Revenue Code, as amended. In general, under such Code provisions, a trust which has made the required election and, in the taxable year, meets certain requirements and distributes to its shareholders at least 90% of its REIT taxable income will not be subject to federal income tax to the extent of the income which it distributes. Earnings and profits, which determine the taxability of dividends to shareholders, differ from net income reported for financial reporting purposes due primarily to differences in depreciation of hotel properties for federal tax purposes. Except with respect to the TRS Lessee, the Company does not believe that it will be liable for significant federal or state income taxes in future years.

Deferred income taxes relate primarily to the TRS Lessee and are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities of the TRS Lessee and their respective tax bases and for operating loss and tax credit carryforwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Although the company does believe that it will be able to recover the tax loss benefit based on the current and future strategic direction of the company, the company understands that as the loss years continue, the realizability of deferred taxes is impacted. Because of the uncertainty surrounding our ability to realize the future benefit of these assets, we have provided a 100% valuation allowance as of December 31, 2012 and 2013.

Under the REIT Modernization Act ("RMA"), which became effective January 1, 2001, the Company is permitted to lease its hotels to one or more wholly owned taxable REIT subsidiaries ("TRS") and may continue to qualify as a REIT provided that the TRS enters into management agreements with an "eligible independent contractor" that will manage the hotels leased by the TRS. The Company formed the TRS Lessee and, effective January 1, 2002, the TRS Lessee leased all of the hotel properties. The TRS Lessee is subject to taxation as a C-Corporation. The TRS Lessee has incurred operating losses for financial reporting and federal income tax purposes for 2013, 2012 and 2011.

Derivative Liabilities

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. However, fair value accounting requires bifurcation of certain embedded derivative instruments such as conversion features in convertible debt or equity instruments, and measurement at their fair value for accounting purposes. The conversion feature embedded in the Series C convertible preferred stock was evaluated, and it was

determined that the conversion features should be bifurcated from its host instrument and accounted for as a freestanding derivative. In addition the common stock warrants issued with the Series C convertible preferred stock were also determined to be freestanding derivatives. The following summarizes our derivative liabilities at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Series C preferred embedded derivative	$ 3,761	$ 7,205
Warrant derivative	2,146	8,730
Derivative liabilities, at fair value	$ 5,907	$ 15,935

The Series C convertible preferred stock embedded derivative and the warrant derivative were initially recorded at their fair value of $7.1 million and $8.6 million, respectively, on the date of issuance, February 1, 2012 and February 15, 2012. At December 31, 2013 the carrying amounts of the derivatives were adjusted to their fair value of $3.8 million and $2.1 million respectively, with a corresponding adjustment to other income (loss). The derivatives are reported as a derivative liability on the accompanying consolidated balance sheets as of December 31, 2013 and will be adjusted to their fair values at each reporting date.

The amendment to the Company's articles of incorporation, setting forth the terms of the Series C convertible preferred stock, the host instrument, includes an antidilution provision that requires an adjustment in the common stock conversion ratio should subsequent issuances of the Company's common stock be issued below the instruments' original conversion price of $1.00 per share. Accordingly we bifurcated the embedded conversion feature which is shown as a derivative liability recorded at fair value on the accompanying consolidated balance sheets as of December 31, 2013.

The agreement setting forth the terms of the common stock warrants issued to the holders of the Series C convertible preferred stock also includes an antidilution provision that requires a reduction in the warrant's exercise price of $9.60 should the conversion ratio of the Series C convertible preferred stock be adjusted due to antidilution provisions. Accordingly, the warrants do not qualify for equity classification, and, as a result, the fair value of the derivative is shown as a derivative liability on the accompanying consolidated balance sheets as of December 31, 2013.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are utilized to determine the value of certain liabilities, to perform impairment assessments, and for disclosure purposes. In February 2012 the Company issued financial instruments with features that were determined to be derivative liabilities, and as a result must be measured at fair value on a recurring basis under Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 820-10 *Fair Value Measurements and Disclosures – Overall*. In addition we apply the fair value provisions of ASC 820-10-35 *Fair Value Measurements and Disclosures – Overall – Subsequent Measurement*, for our nonfinancial assets which include our held for sale and impaired held for use hotels, and the disclosure of the fair value of our debt.

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, as well as inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 non-financial asset valuations use unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data. Financial asset and liability valuation inputs include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the liability; this includes pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

During the year ending December 31, 2013, Level 3 inputs were used to determine net impairment losses of $4.4 million on held for sale and sold hotels. This includes the recovery of previously recorded impairment for which sale price or fair value exceeded management's previous estimates in the amount of $0.3 million on assets held for sale and sold. The Company also recorded $2.7 million in net impairment loss on held for use hotels. This includes the impairment loss of $2.5 million on two held for use assets and the impairment loss of $0.2 million on one hotel previously classified as held for sale.

During the year ending December 31, 2012, Level 3 inputs were used to determine net impairment losses of $7.4 million on held for sale and sold hotels. These impairment losses include the recovery of previously recorded impairment for which fair value exceeded management's previous estimates in the amount of $0.4 million on assets held for sale and sold. The Company also recorded $3.1 million in impairment loss on two held for use hotels, and $0.3 million of recovery on one held for use hotel.

During the year ending December 31, 2011, Level 3 inputs were used to determine net impairment losses of $9.8 million on held for sale and sold hotels. These impairment losses include the recovery of previously recorded impairment for which fair value exceeded management's previous estimates in the amount of $0.5 million on nine assets sold and recovery of $0.2 million on one hotel held for sale. The Company also recorded $4.5 million in impairment loss on two held for use hotels.

Non financial assets

Nonfinancial asset fair value measurements are discussed below in the note "Impairment Losses".

Financial instruments

As of December 31, 2013, the fair value of the derivative liabilities in connection with the February 2012 issuance was determined by the Monte Carlo simulation method. The Monte Carlo simulation method is a generally accepted statistical method used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of future expected stock prices of the Company and its peer group and minimizes standard error.

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The following tables provide the fair value of the Company's financial liabilities carried at fair value and measured on a recurring basis:

	Fair Value at December 31, 2013	Level 1	Level 2	Level 3
Series C preferred embedded derivative	$ 3,761	$ 0	$ 0	$ 3,761
Warrant derivative	2,146	0	0	2,146
	$ 5,907	$ 0	$ 0	$ 5,907

	Fair Value at December 31, 2012	Level 1	Level 2	Level 3
Series C preferred embedded derivative	$ 7,205	$ 0	$ 0	$ 7,205
Warrant derivative	8,730	0	0	8,730
	$ 15,935	$ 0	$ 0	$ 15,935

There were no transfers between levels during the year to date ended December 31, 2012.

The following table presents a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3), and the realized and unrealized gains (losses) recorded in the Consolidated Statement of Operations in Other income (expense) during the period. There were no Level 3 assets or liabilities measured on a recurring basis during the twelve month period ended December 31, 2011.

	Year ending December 31, 2013			Year ending December 31, 2012		
	Series C preferred embedded derivative	Warrant derivative	Total	Series C preferred embedded derivative	Warrant derivative	Total
Fair value, beginning of period	$ 7,205	$ 8,730	$ 15,935	$ 0	$ 0	$ 0
Net unrealized (gains) losses, included in other income (loss)	(5,059)	(4,969)	(10,028)	130	117	247
Purchases, sales, issuances and settlements, net	0	0	0	7,075	8,613	15,688
Gross transfers in	0	0	0	0	0	0
Gross transfers out	0	0	0	0	0	0
Fair value, end of period	$ 2,146	$ 3,761	$ 5,907	$ 7,205	$ 8,730	$ 15,935
Changes in realized (gains) losses, included in income on instruments held at end of period	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Changes in unrealized (gains) losses, included in income on instruments held at end of period	$ (5,059)	$ (4,969)	$ (10,028)	$ 130	$ 117	$ 247

The Company estimates the fair value of its fixed rate debt and the credit spreads over variable market rates on its variable rate debt by discounting the future cash flows of each instrument at estimated market rates or credit spreads consistent with the maturity of the debt obligation with similar credit policies. Credit spreads take into consideration general market conditions and maturity. The inputs utilized in estimating the fair value of debt are classified in Level 2 of the hierarchy. The carrying value and estimated fair value of the Company's debt as of December 31, 2013 and December 31, 2012 are presented in the table below:

	Carrying Value		Estimated Fair Value	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Continuing operations	$ 93,925	$ 89,509	$ 82,978	$ 93,816
Discontinued operations	24,120	43,312	22,691	45,343
Total	$ 118,045	$ 132,821	$ 105,669	$ 139,159

Preferred and Common Limited Partnership Units in SLP

At December 31, 2013, 2012, and 2011 there were 97,008 units, each year, of SLP common operating units outstanding. These units have been excluded from the diluted earnings per share calculation as there would be no effect on the amounts allocated to the limited partners holding common operating units (whose units are convertible on a one-to-one basis to common shares) since their share of income (loss) would be added back to income (loss). During 2011, 61,153 common operating units were converted into 61,153 shares of common stock. In addition, the 11,424 shares of SLP preferred operating units held by the limited partners as of December 31, 2011 are antidilutive, and are therefore excluded from the earnings per share calculation. No SLP preferred operating units were outstanding as of December 31, 2013.

Preferred Stock of SHI

At December 31, 2013, 2012 and 2011, there were 803,270 shares, each year, of Series A Preferred Stock outstanding. The shares of Series A Preferred Stock, after adjusting the numerator and denominator for the basic EPS computation, are antidilutive for the year ended December 31, 2013, 2012 and 2011, for the earnings per share computation. The exercise price of the preferred stock warrants exceeded the market price of the common stock, and therefore these shares were excluded from the computation of diluted earnings per share. The conversion rights of the Series A Preferred Stock were cancelled as of February 20, 2009. On December 11, 2013, the Company's board of directors elected to suspend the payments of monthly dividends on the outstanding shares of its Series A Preferred Stock.

At December 31, 2013, 2012 and 2011, there were 332,500 shares, each year, of Series B Cumulative Preferred Stock outstanding. The Series B Cumulative Preferred Stock is not convertible into common stock, therefore, there is no dilutive effect on earnings per share. On December 11, 2013, the Company's board of directors elected to suspend the payments of monthly dividends on the outstanding shares of its Series B Cumulative Preferred Stock.

At December 31, 2013 and 2012, there were 3,000,000 shares, each year, of Series C Convertible Preferred Stock outstanding. These shares are antidilutive and were excluded from the computation of diluted earnings per share. On December 11, 2013, the Company's board of directors elected to suspend the payments of monthly dividends on the outstanding shares of its Series C Convertible Preferred Stock.

Stock-Based Compensation

The Company has a 2006 Stock Plan (the "Plan") which has been approved by the Company's shareholders. The Plan authorizes the grant of stock options, stock appreciation rights, restricted stock and stock bonuses for up to 62,500 shares of common stock. At the annual shareholders meeting on May 22, 2012, the shareholders of the Company approved an amendment which (a) removed the restrictions in the Plan that prohibit more than 20% of the awards being given to any one participant or to the independent directors as a group, or

prohibiting more than 20% of the awards being made in restricted stock or bonus shares, and (b) increased the number of shares available under the Plan from 37,500 shares to 62,500 shares.

The potential common shares represented by outstanding stock options for the years ended December 31, 2013, 2012 and 2011 totaled 20,063, 27,875, and 26,938 respectively, all of which are assumed to be repurchased with proceeds from the exercise of stock options with no shares being dilutive for the purposes of calculating earnings per share.

Share-Based Compensation Expense

The Plan is accounted for in accordance with FASB ASC Topic 718 – 10 *Compensation – Stock Compensation – Overall,* requiring the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. The expense recognized in the consolidated financial statements for the years ended December 31, 2013, 2012, and 2011 for share-based compensation related to employees and directors was $56, $44, and $29, respectively.

Noncontrolling Interest

Noncontrolling interest in SLP represents the limited partners' proportionate share of the equity in the operating partnership. Supertel offered to each of the Preferred OP Unit holders the option to extend until October 24, 2012 their right to have units redeemed at $10 per unit. In October 2011, 39,611 units were redeemed at $10 each. The remaining 11,424 units were redeemed in October 2012. See additional information regarding SLP units in Note 11. There were no common operating units redeemed in 2013 or 2012. During 2011, 61,153 SLP common operating units of limited partnership interest were redeemed by unit holders for common shares of SHI.

Concentration of Credit Risk

The Company maintained a major portion of its deposits with Great Western Bank, a Nebraska Corporation at December 31, 2013, 2012 and 2011. The balance on deposit at Great Western Bank may at times exceed the federal deposit insurance limit; however, management believes that no significant credit risk exists with respect to the uninsured portion of this cash balance.

Note 2. Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding. Diluted EPS is computed after adjusting the numerator and denominator of the basic EPS computation for the effects of any dilutive potential common shares outstanding during the period, if any. The effects include adjustments to the numerator for any change in fair market value attributed to the derivative liabilities (related to the Series C convertible preferred stock and warrants) during the period the convertible securities are dilutive. The computation of basic and diluted earnings per common share is presented below:

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	For the year ended December 31,		
	2013	**2012**	**2011**
Basic and Diluted Earnings per Share Calculation:			
Numerator: basic			
Net loss attributable to common shareholders:			
Continuing operations	$ (2,616)	$ (14,305)	$ (7,988)
Discontinued operations	(2,084)	926	(10,931)
Net loss attributable to common shareholders - total basic	$ (4,700)	$ (13,379)	$ (18,919)
Numerator: diluted			
Net loss attributable to common shareholders:			
Total continuing operations	(2,616)	(14,305)	(7,988)
Discontinued operations	(2,084)	926	(10,931)
Net loss attributable to common shareholders - total diluted	$ (4,700)	$ (13,379)	$ (18,919)
Denominator:			
Weighted average number of common shares - basic and diluted	2,889,823	2,885,041	2,872,218
Basic and Diluted Earnings Per Common Share:			
Net earnings (loss) attributable to common shareholders per weighted average common share:			
Continuing operations - Basic	$ (0.91)	$ (4.96)	$ (2.78)
Discontinued operations - Basic	(0.72)	0.32	(3.81)
Total - Basic EPS	**$ (1.63)**	**$ (4.64)**	**$ (6.59)**
Continuing operations - Diluted	$ (0.91)	$ (4.96)	$ (2.78)
Discontinued operations - Diluted	(0.72)	0.32	(3.81)
Total - Diluted EPS	**$ (1.63)**	**$ (4.64)**	**$ (6.59)**

The net earnings (loss) attributable to noncontrolling interest is allocated between continuing and discontinued operations. Additionally, unvested stock awards, outstanding stock options, the Series C convertible preferred stock and warrants, and the preferred operating units, if any, have been omitted from the denominator for the purpose of computing diluted earnings per share for the years ended 2013, 2012, and 2011, since the effects of including these shares in the denominator would be antidilutive due to the loss from continuing operations available to common shareholders.

The following table summarizes potentially dilutive securities that have been excluded from the denominator for the purpose of computing diluted earnings per share:

	2013	2012	2011
Preferred operating units	0	1,190	5,554
Outstanding stock options	20,063	27,875	26,938
Unvested stock awards outstanding	2,257	602	0
Warrants	3,750,000	3,426,770	37,425
Series C preferred stock	3,750,000	3,389,344	0
Total potentially dilutive securities excluded from the denominator	7,522,320	6,845,781	69,917

Note 3. Acquisitions and Development

There were no acquisitions and no properties under construction or redevelopment during 2013 or 2011.

On May 25, 2012, we acquired the wholly-owned property, Hilton Garden Inn in Dowell, Maryland. The fair value of the investment in hotel properties, included within the consolidated balance sheet, is $11.5 million. The purchase price was allocated to land, buildings and improvements, and furniture, fixtures and equipment. Included in the consolidated statement of operations for the twelve months ended December 31, 2012 are total revenues of $2.2 million and total net income of $0.6 million since the date of acquisition. Additionally, $0.2 million of acquisition costs are included in acquisition, termination expense.

Note 4. Investments in Hotel Properties

Investments in hotel properties consisted of the following at December 31:

	2013			2012		
	Held For Sale	Held For Use	TOTAL	Held For Sale	Held For Use	TOTAL
Land	$ 6,433	$ 23,226	$ 29,659	$ 10,863	$ 23,668	$ 34,531
Acquired below market lease intangibles	883	0	883	943	0	943
Buildings, improvements, vehicle	30,148	145,152	175,300	50,797	145,731	196,528
Furniture and equipment	8,415	33,593	42,008	14,626	32,067	46,693
Construction-in-progress	0	617	617	37	758	795
	45,879	202,588	248,467	77,266	202,224	279,490
Less accumulated depreciation	14,396	69,715	84,111	22,837	65,562	88,399
	$ 31,483	$ 132,873	$ 164,356	$ 54,429	$ 136,662	$ 191,091

Note 5. Net Gains (Losses) on Sales of Properties and Discontinued Operations

In accordance with FASB ASC 205-20 *Presentation of Financial Statements – Discontinued Operations*, gains, losses and impairment losses on hotel properties sold or classified as held for sale are presented in discontinued operations. Gains, losses and impairment losses for both continuing and discontinued operations are summarized as follows:

	2013	2012	2011
Continuing operations			
Gain from sale of office building	$ 0	$ 0	$ 1,129
Impairment losses	(2,666)	(2,833)	(4,523)
Gain (loss) on sale of assets	(47)	3	4
	(2,713)	(2,830)	(3,390)
Discontinued operations			
Gains from sales of properties	1,892	7,872	376
Impairment losses	(4,420)	(7,339)	(9,785)
Loss on sale of assets	(39)	(42)	(57)
	(2,567)	491	(9,466)
Total	$ (5,280)	$ (2,339)	$ (12,856)

As of December 31, 2013, the Company has 19 properties classified as held for sale. In 2013, 2012 and 2011, the Company sold 17 hotels, 15 hotels and six hotels, respectively, resulting in gains of $1,892, $7,872 and $376, respectively. In 2013, 2012, and 2011, the Company recognized net gains (losses) and impairment on the disposition of assets of approximately $(2,614), $494 and $(9,462).

The Company allocates interest expense to discontinued operations for debt that is to be assumed or that is required to be repaid as a result of the disposal transaction. The Company allocated $3,020, $4,231, and $6,472 to discontinued operations for the years ended December 31, 2013, 2012, and 2011, respectively.

The operating results of hotel properties included in discontinued operations are summarized as follows:

	2013	2012	2011
Revenues	$ 22,847	$ 37,145	$ 42,780
Hotel and property operations expenses	(18,568)	(31,109)	(36,117)
Interest expense	(2,314)	(4,178)	(5,511)
Loss on debt extinguishment	(706)	(53)	(961)
Depreciation and amortization expense	(777)	(2,196)	(3,397)
General and administrative expense	0	0	(50)
Net gain on dispositions of assets	1,853	7,830	319
Impairment loss	(4,420)	(7,339)	(9,785)
Income tax benefit	0	827	1,744
	$ (2,085)	$ 927	$ (10,978)

As of December 31, 2013, the Company had 19 hotels classified as held for sale. At the beginning of 2013 the Company had 22 hotels held for sale and during the year classified an additional fifteen hotels as held for sale.

Seventeen of these hotels were sold during 2012, and one of the hotels was reclassified as held for use due to changes in the property's market condition.

Note 6. Impairment Losses

Held for Use

In accordance with FASB ASC 360-10-35 *Property Plant and Equipment – Overall - Subsequent Measurement*, the Company analyzes its assets for impairment loss when events or circumstances occur that indicate the carrying amount may not be recoverable. As part of this process, the Company utilizes a two-step analysis to determine whether a trigger event (within the meaning of ASC 360-10-35) has occurred with respect to cash flow of, or a significant adverse change in business climate for, its hotel properties. Quarterly and annually the Company reviews all of its held for use hotels to determine any property whose cash flow or operating performance significantly underperformed from budget or prior year, which the Company has set as a shortfall against budget or prior year as 15% or greater.

At year end the Company applies a second analysis on the entire held for use portfolio. The analysis estimates the expected future cash flows to identify any property whose carrying amount potentially exceeded the recoverable value. (Note that at the end of each quarter, this analysis is performed only on those properties identified in the 15% change analysis). In performing this year end analysis, the Company makes the following assumptions:

- Holding periods range from three to five years for non-core assets, and ten years for those assets considered as core.
- Cash flow from trailing twelve months for the individual properties multiplied by the holding period as noted above. The Company does not assume growth rates on cash flows as part of its step one analysis.
- A revenue multiplier for the terminal value based on an average of historical sales from leading industry brokers of like properties was applied according to the assigned holding period.

During the three months ended December 31, 2013, a trigger event, as described in ASC 360-10-35, occurred for two hotel properties held for use in which the carrying value of the hotel exceeded the sum of the undiscounted cash flows expected over its remaining anticipated holding period and from its disposition. The properties were then tested to determine if their carrying amounts were recoverable. When testing the recoverability for a property, in accordance with FASB ASC 360-10-35 35-29 *Property Plant and Equipment – Overall— Subsequent Measurement, Estimates of Future Cash Flows Used to Test a Long-Lived Asset for Recoverability,* the Company uses estimates of future cash flows associated with the individual properties over their expected holding period and eventual disposition. In estimating these future cash flows, the Company incorporates its own assumptions about its use of the hotel property and expected hotel performance. Assumptions used for the individual hotels were determined by management, based on discussions with our asset management group and our third party management companies. The properties were then subjected to a probability-weighted cash flow analysis as described in FASB ASC 360-10-55 *Property Plant and Equipment – Overall – Implementation.* In this analysis, the Company completed a detailed review of the hotels' market conditions and future prospects, which incorporated specific detailed cash flow and revenue multiplier assumptions over the remaining expected holding periods, including the probability that the property will be sold. Based on the results of this analysis, it was determined that the Company's investment in the subject properties was not fully recoverable; accordingly, impairment of $2.5 million was recognized.

To determine the amount of impairment on the hotel properties identified above, in accordance with FASB ASC 360-10-55, the Company calculated the excess of the carrying value of the properties in comparison to their fair value as of December 31, 2013. Based on this calculation, the Company determined total impairment of $2.5 million existed as of December 31, 2013 on two hotel properties. Fair value was determined with the assistance of

independent real estate brokers and revenue multiples based on the Company's experience with hotel sales in the current year as well as available industry information, considered Level 3 inputs. As the fair value of the properties impaired for the quarter ending December 31, 2013 was determined in part by management estimates, a reasonable possibility exists that future changes to inputs and assumptions could affect the accuracy of management's estimates and such future changes could lead to recovery of impairment or further possible impairment in the future. There was $0.2 million of impairment on one property subsequently reclassified as held for use.

During 2012, the analysis above was used to determine that a trigger event occurred for two of our held for use properties. In each case the carrying value of the hotel exceeded the sum of the undiscounted cash flows expected over its remaining anticipated holding period and from its disposition. Each property was then tested to determine if the carrying amount was recoverable using property specific assumptions. Based on the results of this analysis, it was determined that the Company's investment in the subject properties was not fully recoverable; accordingly, impairment of $3.1 million was recognized. There was $0.3 million of impairment recovery on one property subsequently reclassified as held for use.

During 2011, a trigger event occurred for two hotel properties held for use in which the carrying value of each hotel exceeded the sum of the undiscounted cash flows expected over its remaining anticipated holding period and from its disposition. The properties were then tested to determine if their carrying amounts were recoverable. Based on the results of this analysis, it was determined that the Company's investment in the subject properties was not fully recoverable; accordingly, impairment of $4.5 million was recognized.

Held for Sale

During 2013, Level 3 inputs were used to determine impairment losses of $4.7 million on eight held for sale properties and nine properties sold during 2013. Recovery of previously recorded impairment for which fair value exceeded management's previous estimates in the amount of $0.3 million was taken on two held for sale properties and seven properties at the time of sale.

During 2012, Level 3 inputs were used to determine impairment losses of $7.8 million on four held for sale properties and seventeen properties sold during 2012 and 2013. Recovery of previously recorded impairment for which fair value exceeded management's previous estimates in the amount of $0.4 million was taken on four properties at the time of sale and four properties subsequently sold.

During 2011, Level 3 inputs were used to determine impairment losses of $10.5 million on two held for sale properties and nineteen properties sold during 2011, 2012 and 2013. Recovery of previously recorded impairment for which fair value exceeded management's previous estimates in the amount of $0.2 million was taken on one property held for sale, and recovery of $0.5 million was taken on nine properties at the time of sale.

In accordance with ASC 360-10-35 *Property Plant and Equipment-Overall-Subsequent Measurement,* the Company determines the fair value of an asset held for sale based on the estimated selling price less estimated selling costs. We engage independent real estate brokers to assist us in determining the estimated selling price using a market approach. The estimated selling costs are based on our experience with similar asset sales.

Note 7. Long-Term Debt

Long-term debt consisted of the following loans payable at December 31:

	2013	**2012**
Revolving credit facility from Great Western Bank evidenced by a promissory note dated December 9, 2011. The revolving line of credit has a limit of $12.5 million with interest payable monthly. The facility bore interest at 5.95% per annum. On March 26, 2013, the maturity was extended to June 30, 2014, and the interest rate was lowered to 4.95%.	$ 11,037	$ 2,451
Mortgage loan payable to Great Western Bank evidenced by a promissory note dated December 9, 2011, in the amount of $7.5 million. The note bore interest at 6.00% per annum. Principal and interest payments are due in monthly installments with the outstanding principal and interest payable in full on the maturity date. On March 26, 2013, the maturity was extended to June 30, 2015, and the interest rate was lowered to 5.00%.	$ 7,074	$ 7,296
Mortgage loan payable to Great Western Bank evidenced by a promissory note dated May 5, 2009, in the amount of $10 million. The note bore interest at 6.00% per annum. Principal and interest payments are due in monthly installments with the outstanding principal and interest payable in full on the maturity date. On March 26, 2013, the maturity was extended to June 30, 2015, and the interest rate was lowered to 5.00%.	$1,182	$ 6,786
Mortgage loan payable to Citigroup Global Markets Realty Corp. evidenced by a promissory note dated November 7, 2005, in the amount of $14.8 million. The note bears interest at 5.97% per annum. Principal and interest payments are due in monthly installments with the outstanding principal and interest payable in full on November 11, 2015.	$ 12,280	$ 12,667
Mortgage loan payable to GE evidenced by a promissory note dated December 31, 2007, in the amount of $7.9 million. The note bears interest at three-month LIBOR plus 2.00% (reset monthly). Monthly installments of principal and interest are due until February 1, 2018 when the remaining principal balance is due. On March 16, 2009, the note was amended to increase the interest rate by 1.00%. It was further amended on November 9, 2009, to increase the interest rate by an additional 0.5%. The rate as of December 31, 2013 was 3.74%.	$ 4,321	$ 4,572
Mortgage loan payable to GE evidenced by a promissory note dated August 18, 2006, in the amount of $17.9 million. On May 1, 2008, the Company converted the loan to a fixed rate equal to the seven-year weekly U.S. dollar interest rate swap plus 1.98%. Monthly installments of principal and interest are due until September 1, 2016 when the remaining principal balance is due. On March 16, 2009, the note was amended to increase the interest rate by 1.00%. It was further amended on November 9, 2009, to increase the interest rate by an additional 0.5%. The rate as of December 31, 2013 was 7.17%.	$ 15,510	$ 15,943

Mortgage loan payable to GE evidenced by a promissory note dated January 5, 2007, in the amount of $15.6 million. On May 1, 2008, the Company converted the loan to a fixed rate equal to the seven-year weekly U.S. dollar interest rate swap plus 1.98%. Monthly installments of principal and interest are due until February 1, 2017 when the remaining principal balance is due. On March 16, 2009, the note was amended to increase the interest rate by 1.00%. It was further amended on November 9, 2009, to increase the interest rate by an additional 0.5%. The rate as of December 31, 2013 was 7.17%.	$ 11,815	$ 12,261
Mortgage loan payable to GE evidenced by a promissory note dated February 6, 2007, in the amount of $3.4 million. On May 1, 2008, the Company converted the loan to a fixed rate equal to the seven-year weekly U.S. dollar interest rate swap plus 1.98%. Monthly installments of principal and interest are due until March 1, 2017 when the remaining principal balance is due. On March 16, 2009, the note was amended to increase the interest rate by 1.00%. It was further amended on November 9, 2009, to increase the interest rate by an additional 0.5%. The rate as of December 31, 2013 was 7.17%.	$ 1,819	$ 3,102
Mortgage loan payable to GE evidenced by a promissory note dated May 16, 2007, in the amount of $27.8 million. On May 1, 2008, the Company converted the loan to a fixed rate equal to the seven-year weekly U.S. dollar interest rate swap plus 1.98%. Monthly installments of principal and interest are due until June 1, 2017, when the remaining principal balance is due. On March 16, 2009, the note was amended to increase the interest rate by 1.00%. It was further amended on November 9, 2009, to increase the interest rate by an additional 0.5%. The rate as of December 31, 2012 was 7.69%. The loan was paid in full in June 2013.	$ 0	$ 9,725
Mortgage loan payable to Wachovia Bank evidenced by a promissory note dated February 4, 1998, in the amount of $2.5 million, assumed by the Company on April 4, 2007 with a remaining principal balance of $2.0 million. The note bears interest at 7.375% per annum. Principal and interest payments are due in monthly installments with the outstanding principal and interest payable in full on March 1, 2020. The loan was paid in full in December 2013 with proceeds from the loan from Middle Patent Capital, LLC (see below).	$ 0	$ 1,357
Mortgage loan payable to Wachovia Bank evidenced by a promissory note dated February 4, 1998, in the amount of $2.8 million, assumed by the Company on April 4, 2007 with a remaining principal balance of $2.2 million. The note bears interest at 7.375% per annum. Principal and interest payments are due in monthly installments with the outstanding principal and interest payable in full on March 1, 2020. The loan was paid in full in December 2013 with proceeds from the loan from Middle Patent Capital, LLC (see below).	$ 0	$ 1,493

Mortgage loan payable to Wachovia Bank evidenced by a promissory note dated February 4, 1998, in the amount of $4.2 million, assumed by the Company on April 4, 2007 with a remaining principal balance of $3.3 million. The note bears interest at 7.375% per annum. Principal and interest payments are due in monthly installments with the outstanding principal and interest payable in full on March 1, 2020. The loan was paid in full in December 2013 with proceeds from the loan from Middle Patent Capital, LLC (see below).	$ 0	$ 2,270
Mortgage loan payable to Wachovia Bank evidenced by a promissory note dated February 4, 1998, in the amount of $5.1 million, assumed by the Company on April 4, 2007 with a remaining principal balance of $4.0 million. The note bears interest at 7.375% per annum. Principal and interest payments are due in monthly installments with the outstanding principal and interest payable in full on March 1, 2020. The loan was paid in full in December 2013 with proceeds from the loan from Middle Patent Capital, LLC (see below).	$ 0	$ 2,771
Mortgage loan payable to GE evidenced by a promissory note dated January 2, 2008, in the amount of $3.4 million. The note bears interest at the 90-day London Interbank Offered Rate plus a margin of 2.00% (reset monthly). Monthly installments of principal and interest are due until February 1, 2018 when the remaining principal balance is due. On March 16, 2009, the note was amended to increase the interest rate by 1.00%. It was further amended on November 9, 2009, to increase the interest rate by an additional 0.5%. The rate as of December 31, 2013 was 3.74%.	$ 2,934	$ 3,087
Mortgage loan payable to GE evidenced by a promissory note dated January 2, 2008 in the amount of $4.4 million. The note bears interest at the 90-day London Interbank Offered Rate plus a margin of 2.00% (reset monthly). Monthly installments of principal and interest are due until February 1, 2018 when the remaining principal balance is due. On March 16, 2009, the note was amended to increase the interest rate by 1.00%. It was further amended on November 9, 2009, to increase the interest rate by an additional 0.5%. The rate as of December 31, 2012 was 3.81%. The note was paid in full in August 2013.	$ 0	$ 3,977
Mortgage loan payable to GE evidenced by a promissory note dated January 31, 2008 in the amount of $2.5 million, dated January 31, 2008. The note bears interest at the 90-day London Interbank Offered Rate plus a margin of 2.56% (reset monthly). Monthly installments of principal and interest are due until February 1, 2018 when the remaining principal balance is due. On March 16, 2009, the note was amended to increase the interest rate by 1.00%. It was further amended on November 9, 2009, to increase the interest rate by an additional 0.5%. The rate as of December 31, 2013 was 4.30%.	$ 2,122	$ 2,235

Mortgage loan payable to Elkhorn Valley Bank evidenced by a promissory note dated June 7, 2011, in the amount of $3.1 million. The note bears interest at 6.25%. Monthly principal and interest payments are due through maturity, with the balance of the loan payable on June 15, 2016. On February 21, 2013, the interest rate was decreased to 5.5%.	$ 2,759	$ 2,923
Mortgage loan payable to Morgan Stanley Mortgage Capital Holdings, LLC evidenced by a promissory note dated November 2, 2012, in the amount of $30.6 million. The note bears interest at 5.83%. Monthly principal and interest payments are due through maturity, with the balance of the loan payable on December 1, 2017.	$ 29,655	$ 30,622
Mortgage loan payable to Elkhorn Valley Bank and Trust evidenced by a promissory note dated October 10, 2012, in the amount of $1.2 million. The note bears interest at 5.5%. Monthly interest payments are due through maturity, with the balance of the loan payable on October 15, 2014. The note was paid in full in February 2013.	$ 0	$ 1,142
Mortgage loan payable to Cantor Commercial Real Estate Lending evidenced by a promissory note dated October 12, 2012, in the amount of $6.2 million. The note bears interest at 4.25%. Monthly principal and interest payments are due through maturity, with the balance of the loan payable on November 6, 2017.	$ 6,041	$ 6,141
Mortgage loan payable to First State Bank evidenced by a promissory note dated January 10, 2013, in the amount of $2.4 million. The note bears interest at 5.5%. Monthly interest payments are due until September 1, 2016, when the remaining principal balance is due.	$ 1,196	$ 0
Mortgage loan payable to Middle Patent Capital, LLC evidenced by a promissory note dated December 6, 2013, in the amount of $8.3 million. The note bears interest at 12.5%. Monthly interest payments are due until June 2015, when the remaining principal balance is due.	$ 8,300	$ 0
Total Debt	$ 118,045	$ 132,821

The long-term debt is secured by 68 and 82 of the Company's hotel properties, as of December 31, 2013 and 2012, respectively. The Company's debt agreements contain requirements as to the maintenance of minimum levels of debt service and fixed charge coverage and required loan-to-value and leverage ratios, and place certain restrictions on dividends.

Financial Covenants

The key financial covenants for certain of our loan agreements and compliance calculations as of December 31, 2013 are discussed below (each such covenant is calculated pursuant to the applicable loan agreement). As of December 31, 2013, we were either in compliance with our financial covenants or obtained waivers for non-compliance (as discussed below). As a result, at December 31, 2013, we are not in default under the terms of any of our loans.

(Dollars in thousands) Great Western Bank Covenants	December 31, 2013 Requirement	December 31, 2013 Calculation
Consolidated debt service coverage ratio calculated as follows: *	≥1.05:1	
Adjusted NOI (A) / Debt service (B)		
Net loss per financial statements		$ (1,353)
Net adjustments per loan agreement		16,654
Adjusted NOI per loan agreement (A)		$ 15,301
Interest expense per financial statements - continuing operations		6,421
Interest expense per financial statements - discontinued operations		3,020
Total interest expense per financial statements		$ 9,441
Net adjustments per loan agreement		2,067
Debt service per loan agreement (B)		$ 11,508
Consolidated debt service coverage ratio		**1.33**

* Calculations based on prior four quarters

(Dollars in thousands) Great Western Bank Covenants	December 31, 2013 Requirement	December 31, 2013 Calculation
Loan-specific debt service coverage ratio calculated as follows: *	≥1.20:1	
Adjusted NOI (A) / Debt service (B)		
Net loss per financial statements		$ (1,353)
Net adjustments per loan agreement		3,712
Adjusted NOI per loan agreement (A)		$ 2,359
Interest expense per financial statements - continuing operations		6,421
Interest expense per financial statements - discontinued operations		3,020
Total interest expense per financial statements		$ 9,441
Net adjustments per loan agreement		(7,752)
Debt service per loan agreement (B)		$ 1,689
Loan-specific debt service coverage ratio		**1.40 : 1**

* Calculations based on prior four quarters

(Dollars in thousands) Great Western Bank Covenants	December 31, 2013 Requirement		December 31, 2013 Calculation
Consolidated loan to value ratio calculated as follows:	≤ 70.0%		
Loan balance (A) / Value (B)			
Loan balance (A)		$	118,045
Value (B)		$	208,804
Consolidated loan to value ratio			56.5 %

(Dollars in thousands) Great Western Bank Covenants	December 31, 2013 Requirement		December 31, 2013 Calculation
Loan-specific loan to value ratio calculated as follows:	≤ 70.0%		
Loan balance (A) / Value (B)			
Loan balance (A)		$	19,292
Value (B)		$	33,635
Loan-specific loan to value ratio			57.4 %

(Dollars in thousands) Great Western Bank Covenants	December 31, 2013 Requirement		December 31, 2013 Calculation
Consolidated leverage ratio calculated as follows:	≤ 4.25		
Total liabilities (A) / Tangible net worth (B)			
Total liabilities per financial statements and loan agreement (A)		$	131,697
Total assets per financial statements			172,085
Total liabilities per financial statements			131,697
Tangible net worth per loan agreement (B)		$	40,388
Consolidated Leverage Ratio			**3.26**

The credit facilities with Great Western Bank also require that we not pay dividends in excess of 75% of our funds from operations per year. The credit facilities currently consist of a $12.5 million revolving credit facility and term loans in the original principal amount of $10 million and $7.5 million. The credit facilities provide for $12.5 million of availability under the revolving credit facility, subject to the limitation that the loans available to us through the revolving credit facility and term loans may not exceed the lesser of (a) an amount equal to 70% of the

total appraised value of the hotels securing the credit facilities and (b) an amount that would result in a loan-specific debt service coverage ratio of less than 1.20 to 1. At December 31, 2013, the revolving credit facility was fully available and the outstanding balance was $11.0 million.

(Dollars in thousands) GE Covenants	December 31, 2013 Requirement	December 31, 2013 Calculation	
Loan-specific fixed charge coverage ratio calculated as follows: *	≥ 1.30:1		
Adjusted EBITDA (A) / Fixed charges (B)			
Net loss per financial statements		$	(1,353)
Net adjustments per loan agreement			6,712
Adjusted EBITDA per loan agreement (A)		$	5,359
Interest expense per financial statements - continuing operations			6,421
Interest expense per financial statements - discontinued operations			3,020
Total interest expense per financial statements		$	9,441
Net adjustments per loan agreement			(5,334)
Fixed charges per loan agreement (B)		$	4,107
Loan-specific fixed charge coverage ratio			**1.30 : 1**

* Calculations based on prior four quarters

(Dollars in thousands) GE Covenants	December 31, 2013 Requirement	December 31, 2013 Calculation	
Loan-specific loan to value ratio calculated as follows:	≤ 72.2%		
Loan balance (A) / Value (B)			
Loan balance (A)		$	38,521
Value (B)		$	55,120
Loan-specific loan to value ratio			**69.9 %**

Supertel Hospitality, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2013, 2012 and 2011
(Dollars in thousands, except per share data)

(Dollars in thousands) GE Covenants Before dividend consolidated fixed charge coverage ratio calculated as follows: *	December 31, 2013 Requirement	December 31, 2013 Calculation
	≥ 1.20:1	
Adjusted EBITDA (A) / Fixed charges (B)		
Net loss per financial statements		$ (1,353)
Net adjustments per loan agreement		12,398
Adjusted EBITDA per loan agreement (A)		$ 11,045
Interest expense per financial statements - continuing operations		6,421
Interest expense per financial statements - discontinued operations		3,020
Total interest expense per financial statements		$ 9,441
Net adjustments per loan agreement		1,447
Fixed charges per loan agreement (B)		$ 10,888
Before dividend consolidated fixed charge coverage ratio		**1.01:1**

* Calculations based on prior four quarters

(Dollars in thousands) GE Covenants After dividend consolidated fixed charge coverage ratio calculated as follows: *	December 31, 2013 Requirement	December 31, 2013 Calculation
	≥ 1.00:1	
Adjusted EBITDA (A) / Fixed charges (B)		
Net loss per financial statements		$ (1,353)
Net adjustments per loan agreement		12,398
Adjusted EBITDA per loan agreement (A)		$ 11,045
Interest expense per financial statements - continuing operations		6,421
Interest expense per financial statements - discontinued operations		3,020
Total interest expense per financial statements		$ 9,441
Net adjustments per loan agreement		4,796
Fixed charges per loan agreement (B)		$ 14,237
After dividend consolidated fixed charge coverage ratio		**0.78:1**

* Calculations based on prior four quarters

As of December 31, 2013, the Company was not in compliance with the GE before dividend consolidated fixed charge coverage ratio (FCCR) and the GE after dividend consolidated FCCR, but obtained waivers from GE as discussed further below.

Prior to the amendment discussed below, the financial covenants under our loan facilities with GE required that, through the term of the loans, we maintain: (a) a minimum before dividend FCCR with respect to our GE-encumbered properties (based on a rolling 12-month period) of 1.30:1; (b) a maximum loan to value ratio with respect to our GE-encumbered properties of 72.2% as of December 31, 2013, which requirement decreases periodically thereafter to 60% as of December 31, 2015; (c) a minimum before dividend consolidated FCCR (based on a rolling 12-month period) of 1.20:1 as of December 31, 2013, which requirement increases periodically thereafter to 1.30:1 as of December 31, 2014; and (d) a minimum after dividend consolidated FCCR (based on a rolling 12-month period) of 1.00:1.

As of December 31, 2013, our before dividend FCCR with respect to our GE-encumbered properties (as defined in the loan agreement) was 1.30:1, our before dividend consolidated FCCR (as defined in the loan agreement) was 1.01:1 and our after dividend consolidated FCCR (as defined in the loan agreement) was 0.78:1. Further, the Company does not currently project that it will be able to satisfy these covenants as of March 31, 2014. On March 14, 2014, the Company received a waiver for non-compliance with these covenants as of December 31, 2013 and March 31, 2014.

In connection with the waiver, our loan facilities with GE were also amended to require that, through the term of the loans, we maintain: (a) a minimum before dividend FCCR with respect to our GE-encumbered properties (based on a rolling 12-month period) of 1.10:1 as of June 30, 2014, which requirement increases periodically thereafter to 1.20:1 as of December 31, 2014; (b) a maximum loan to value ratio with respect to our GE-encumbered properties of 70% as of June 30, 2014, which requirement decreases periodically thereafter to 60% as of December 31, 2014; (c) a minimum before dividend consolidated FCCR (based on a rolling 12-month period) of 0.70:1 as of June 30, 2014, which requirement increases periodically thereafter to 1.00:1 as of December 31, 2014; and (d) a minimum after dividend consolidated FCCR (based on a rolling 12-month period) of 0.75:1 as of June 30, 2014, which requirement increases periodically thereafter to 1.00:1 as of December 31, 2014.

The GE amendment, among other things, also: (a) provides that the consolidated FCCRs are not required to be tested as of the end of any fiscal quarter if the loan to value ratio with respect to our GE-encumbered properties is 60% or less; (b) implements changes beneficial to the Company regarding release of collateral, prepayment fees and loan reamortizations; (c) requires that any variable rate loans remaining outstanding as of December 31, 2014 be converted to fixed rate loans bearing interest at 4.75%; and (d) requires payment of a $380,000 modification fee.

If we fail to pay our indebtedness when due, fail to comply with covenants or otherwise default on our loans, unless waived, we could incur higher interest rates during the period of such loan defaults, be required to immediately pay our indebtedness and ultimately lose our hotels through lender foreclosure if we are unable to obtain alternative sources of financing with acceptable terms. Our Great Western Bank and GE facilities contain cross-default provisions which would allow Great Western Bank and GE to declare a default and accelerate our indebtedness to them if we default on our other loans, and such default would permit that lender to accelerate our indebtedness under any such loan. We are not in default of any of our loans.

At December 31, 2013, we had long-term debt of $93.9 million associated with assets held for use, consisting of notes and mortgages payable, with a weighted average term to maturity of 2.8 years and a weighted average interest rate of 6.2%. The weighted average fixed rate was 6.4%, and the weighted average variable rate was 3.9%. Debt is classified as held for use if the properties collateralizing it are included in continuing operations. Debt is classified as held for sale if the properties collateralizing it are included in discontinued operations. Debt associated with assets held for sale is classified as a short-term liability due within the next year irrespective of whether the notes and mortgages evidencing such debt mature within the next year. Aggregate annual principal

payments on debt associated with assets held for use for the next five years and thereafter, and debt associated with assets held for sale, are as follows:

	Held For Sale	Held For Use	TOTAL
2014	$ 24,120	$ 14,244	$ 38,364
2015	0	24,819	24,819
2016	0	4,794	4,794
2017	0	42,975	42,975
2018	0	7,093	7,093
Thereafter	0	0	0
	$ 24,120	$ 93,925	$ 118,045

At December 31, 2013, we had $38.4 million of principal due in 2014. Of this amount, $31.5 million of the principal due is associated with either assets held for use or assets held for sale, and matures in 2014 pursuant to the notes and mortgages evidencing such debt. The remaining $6.9 million is associated with assets held for sale and is not contractually due in 2013 unless the related assets are sold. The maturities comprising the $31.5 million consist of:

- an $11.0 million balance on a revolving line of credit with Great Western Bank;
- a $15.5 million balance on a mortgage loan with GE Capital Franchise Finance LLC ("GE");
- a $1.8 million balance on a mortgage loan with GE; and
- approximately $3.2 million of principal amortization on mortgage loans.

We believe the debt with Great Western Bank will be refinanced with Great Western Bank on acceptable terms. The seven hotels securing the loans with GE are held for sale, and if sold, we believe that the net proceeds from the sale of the hotels would be sufficient to satisfy the debt with GE. Alternatively, the Company believes it will be able to refinance the debt with GE on acceptable terms if the hotels are not sold.

Note 8. Income Taxes

The RMA was included in the Tax Relief Extension Act of 1999, which was enacted into law on December 17, 1999. The RMA includes numerous amendments to the provisions governing the qualification and taxation of REITs, and these amendments were effective January 1, 2001. One of the principal provisions included in the Act provides for the creation of TRS. TRS's are corporations that are permitted to engage in nonqualifying REIT activities. A REIT is permitted to own up to 100% of the voting stock in a TRS. Previously, a REIT could not own more than 10% of the voting stock of a corporation conducting nonqualifying activities. Relying on this legislation, in November 2001, the Company formed the TRS Lessee.

As a REIT, the Company generally will not be subject to corporate level federal income tax on taxable income it distributes currently to stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed taxable income. In addition, taxable income of a TRS is subject to federal, state and local income taxes.

In connection with the Company's election to be taxed as a REIT, it has also elected to be subject to the "built-in gain" rules on the assets formerly held by the old Supertel. Under these rules, taxes will be payable at the time and to the extent that the net unrealized gains on assets at the date of conversion to REIT status are recognized in taxable dispositions of such assets in the ten-year period following conversion. The ten-year period ended November 1, 2011.

At December 31, 2013, the income tax bases of the Company's assets and liabilities excluding those of TRS were approximately $169,602 and $79,308, respectively; at December 31, 2012, they were approximately $213,219 and $116,225, respectively.

We have provided a valuation allowance against our deferred tax assets at December 31, 2012 and 2013 that results in no net deferred tax asset at December 31, 2012 and 2013 due to the uncertainty of realization (because of historical operating losses). The TRS net operating loss carryforward from December 31, 2013 as determined for federal income tax purposes was approximately $20.0 million. The availability of such loss carryforward will begin to expire in 2022.

Income tax expense (benefit) from continuing operations for the years ended December 31, 2013, 2012 and 2011 consists of the following:

	2013			2012			2011		
	Federal	**State**	**Total**	**Federal**	**State**	**Total**	**Federal**	**State**	**Total**
Current	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Deferred	0	0	0	5,763	674	6,437	(135)	(25)	(160)
Total income tax benefit	$ 0	$ 0	$ 0	$ 5,763	$ 674	$ 6,437	$ (135)	$ (25)	$ (160)

The actual income tax expense (benefit) from continuing operations of the TRS for the years ended December 31, 2013, 2012 and 2011 differs from the "expected" income tax expense (benefit) (computed by applying the appropriate U.S. federal income tax rate of 34% to earnings before income taxes) as a result of the following:

	2013	2012	2011
Computed "expected" income tax (benefit) expense	$ (761)	$ 110	$ (144)
State income taxes, net Federal income tax (benefit) expense	(89)	14	(16)
Increase in valuation allowance	850	6,337	0
Other	0	(24)	0
Total income tax expense (benefit)	$ 0	$ 6,437	$ (160)

The continuing and discontinued combined tax effects of temporary differences that give rise to significant portions of the deferred tax assets and the deferred tax liability at December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Deferred Tax Assets:			
Expenses accrued for consolidated financial statement purposes, nondeductible for tax return purposes	$ 171	$ 234	$ 326
Net operating losses carried forward for federal income tax purposes	7,599	6,289	5,524
Subtotal deferred tax assets	7,770	6,523	5,850
Valuation Allowance	(7,619)	(6,337)	0
Total deferred tax assets	151	186	5,850
Deferred Liabilities:			
Tax depreciation in excess of book depreciation	151	186	240
Total deferred tax liabilities	151	186	240
Net deferred tax assets	$ 0	$ 0	$ 5,610

The TRS has estimated its income tax benefit using a combined federal and state rate of approximately 38%. The TRS, before the valuation allowance provided at year end 2013 and 2012, had net deferred tax assets of $7.8 million, $6.5 million and $5.9 million, as of the year ended 2013, 2012 and 2011, respectively, primarily due to current and past years' tax net operating losses. These loss carryforwards will begin to expire in 2022 through 2033. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Because of the uncertainty surrounding our ability to realize the future benefit of these assets, we have provided a 100% valuation allowance as of December 31, 2013 and 2012. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. The Company considers projected scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. These estimates of future taxable income inherently require significant judgment. Management uses historical experience and short and long-range business forecasts to develop such estimates. Further, we employ various prudent and feasible tax planning strategies to facilitate the recoverability of future deductions. A cumulative loss in recent years is a significant piece of evidence with respect to realizability that outweighs the other evidence. A cumulative loss for recent years exists because of the company's net operating losses in both the current year and prior two years. The company understands that as the loss years continue, the realizability of deferred taxes is impacted. As a result of this analysis the company believes that a valuation allowance is necessary for the deferred tax asset as of December 31, 2013 and 2012. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred tax consequences represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material impact on our financial condition and results of operations.

There was no valuation allowance at December 31, 2011. An allowance of $7.6 million and $6.3 million was provided at December 31, 2013 and 2012, respectively. As of December 31, 2012, the tax years that remain subject to examination by major tax jurisdictions generally include 2010 through 2012.

Note 9. Commitments and Contingencies and Other Related Party Transactions

HMA, Strand, Kinseth, and Cherry Cove, independent contractors, manage our hotels pursuant to hotel management agreements with TRS Lessee. The management agreements provide that the management companies have control of all operational aspects of the hotels, including employee-related matters. HMA, Strand, Kinseth, and Cherry Cove must generally maintain each hotel in good repair and condition and make routine maintenance, repairs and minor alterations. Additionally, the management companies must operate the hotels in accordance with third party franchise agreements that cover the hotels, which includes using franchisor sales and reservation systems as well as abiding by franchisors' marketing standards. HMA, Strand, Kinseth, and Cherry Cove may not assign their management agreements without our consent. For further information regarding terms of the agreements see Note 1.

The management agreements generally require TRS Lessee to fund debt service, working capital needs, capital expenditures and to reimburse the management companies for all budgeted direct operating costs and expenses incurred in the operation of the hotels. TRS Lessee is responsible for obtaining and maintaining insurance policies with respect to the hotels.

With the exception of certain events of default as to which no grace period exists, if an event of default occurs and continues beyond the grace period set forth in the management agreement, the non-defaulting party has the option of terminating the agreement.

The management agreements provide that each party, subject to certain exceptions, indemnifies and holds harmless the other party against any liabilities stemming from certain negligent acts or omissions, breach of contract, willful misconduct or tortuous actions by the indemnifying party or any of its affiliates.

In an effort to meet the Company's short-term liquidity needs, and because of the difficulty encountered in obtaining sources of borrowing to meet such needs, on November 10, 2011, the Audit Committee of the Board of Directors, then consisting of Messrs. Jung, Whittemore, and Zwerdling, approved a proposal for the purchase by four of the Company directors, Messrs. Borgmann, Dayton, Latham, and Walters (the "Purchasing Directors"), of the Amended and Restated Master Promissory Note maturing November 30, 2011 from Wells Fargo Bank, National Association (the "Note") for the balance owed of principal and interest in the amount of $2.1 million.

The Purchasing Directors purchased the Note from Wells Fargo on November 21, 2011. The Note was secured by two of the Company's hotels and the Purchasing Directors released one of the hotels from security for the Note so that it could be used as security by the Company to obtain a $5.0 million line of credit with Elkhorn Valley Bank. Each of the Purchasing Directors also separately guaranteed $0.75 million of the line of credit (the "Elkhorn Line of Credit").

The Audit Committee approved an amendment of the Note to extend its maturity to May 31, 2012 and to increase the per annum interest rate of 4.5% to 10% as consideration for the Purchasing Directors releasing the Company's hotel from security for the Note. As consideration for the personal guaranties by the Purchasing Directors of the Elkhorn Line of Credit, the Audit Committee approved payment of a fee of 2% per annum of the amount of their personal guaranties.

Proceeds from the sale of the Series C preferred stock were used in February 2012 to repay the Note and the Elkhorn Line of Credit, and the Purchasing Directors were released from their personal guaranties. Each of the Purchasing Directors received $13 in interest payments on the Note and a $4 fee for their personal guarantee of the Elkhorn Line of Credit.

Litigation

Various claims and legal proceedings arise in the ordinary course of business and may be pending against the Company and its properties. Based upon the information available, the Company believes that the resolution of any of these claims and legal proceedings should not have a material adverse affect on its consolidated financial position, results of operations or cash flows.

Other

The Company assumed land lease agreements in conjunction with the purchase of one hotel. The lease requires monthly payments of the greater of $2 or 5% of room revenue through November 2091. Land lease expense from continuing operations totaled approximately $48, $52 and $62 in 2013, 2012 and 2011, respectively, and is included in property operating expense.

The Company entered into office lease agreements in May of 2010 and December of 2011. The two office leases mature in 2016 with the option to renew an additional five years. Office lease expense totaled $162, $161, and $59 during 2013, 2012, and 2011 respectively.

As of December 31, 2013, the future minimum lease payments applicable to non-cancellable operating leases are as follows:

		Lease rents
2014	$	191
2015		191
2016		179
2017		24
2018		24
Thereafter		1,750
	$	2,359

The land leases reflected in the table above represent continuing operations. In addition, the Company has two land leases associated with properties in discontinued operations. These two properties are expected to be sold in the next 12 months. The annual lease payments of $50 are not included in the table above.

The Company as of December 31, 2013 has agreements with a restaurant and a cell tower operator for leased space at our hotel locations related to continuing operations. The restaurant lease has a maturity date of 2020, and the cell tower lease has a maturity date of 2016. The restaurant lease has an escalation clause. The escalation is based on percentages of gross sales. The restaurant and cell tower lease income from continuing operations totaled approximately $265, $265 and $275 in 2013, 2012 and 2011, respectively, and is included in room rentals and other hotel services.

As of December 31, 2013, the future minimum lease receipts from the non-cancellable restaurants and cell tower leases are as follows:

		Lease receipts
2014	$	122
2015		122
2016		118
2017		108
2018		108
Thereafter		216
	$	794

Note 10. Series B Redeemable Preferred Stock

On June 3, 2008 the Company offered and sold 332,500 shares of 10.0% Series B Cumulative Preferred Stock. The shares were sold for $25.00 per share and bear a liquidation preference of $25.00 per share. Underwriting and other costs of the offering totaled approximately $0.6 million to the Company. The net proceeds plus additional cash were used by the Company to pay an $8.5 million bridge loan with General Electric Capital Corporation. At December 31, 2013, 332,500 shares of 10.0% Series B preferred stock remained outstanding.

Dividends on the Series B preferred stock are cumulative and are payable quarterly in arrears on each March 31, June 30, September 30 and December 31, or, if not a business day, the next succeeding business day, at the annual rate of 10.0% of the $25.00 liquidation preference per share, equivalent to a fixed annual amount of $2.50 per share. Dividends on the Series B preferred stock accrue whether or not the Company has earnings, whether or not there are funds legally available for the payment of such dividends, whether or not such dividends are declared and whether or not such dividends are prohibited by agreement. Commencing with dividends due on December 31, 2013, the Company suspended payment of dividends on its Series B preferred stock to preserve capital and improve liquidity. Undeclared dividends on the Series B preferred stock will not bear interest. Undeclared dividends are $208, or 0.625 per share, as of December 31, 2013.

The Series B preferred stock will, with respect to dividend rights and rights upon the Company’s liquidation, dissolution or winding up, rank: (a) senior to the Company’s common stock, (b) senior to all classes or series of preferred stock issued by the Company and ranking junior to the Series B preferred stock with respect to dividend rights or rights upon the Company’s liquidation, dissolution or winding up, (c) on a parity with the Company’s Series A preferred stock and with all classes or series of preferred stock issued by the Company and ranking on a parity with the Series B preferred stock with respect to dividend rights or rights upon the Company’s liquidation, dissolution or winding up and junior to all of the Company’s existing and future indebtedness.

The Company will not pay any distributions, or set aside any funds for the payment of distributions, on its common shares, unless it has also paid (or set aside for payment) the full cumulative distributions on the preferred shares for the current and all past dividend periods. The Series B preferred stock has no stated maturity and is not subject to any sinking fund or mandatory redemption (except as described below).

The Series B preferred stock is redeemable as of June 3, 2013. The Company may redeem the Series B preferred stock, in whole or in part, at any time or from time to time on for cash at a redemption price of $25.00 per share, plus all undeclared dividends. Also, upon a change of control, each outstanding share of the Company’s Series B preferred stock will be redeemed for cash at a redemption price of $25.00 per share, plus all undeclared dividends. At December 31, 2013, no events have occurred that would lead the Company to believe redemption of the preferred stock, due to a change of control or failure to maintain its REIT qualification, is probable.

Note 11. Noncontrolling Interest of Common and Preferred Units in SLP

At December 31, 2013, 97,008 of SLP's common operating partnership units ("Common OP Units") were outstanding. The redemption values for the Common OP Units are $87 and $99 for 2013 and 2012 respectively. Each limited partner of SLP may, subject to certain limitations, require that SLP redeem all or a portion of his or her Common OP Units, at any time after a specified period following the date the units were acquired, by delivering a redemption notice to SLP. When a limited partner tenders Common OP Units to SLP for redemption, the Company can, in its sole discretion, choose to purchase the units for either (1) a number of shares of Company common stock equal to the number of units redeemed (subject to certain adjustments) or (2) cash in an amount equal to the market value of the number of shares of Company common stock the limited partner would have received if the Company chose to purchase the units for common stock. During 2013, 2012, and 2011, 0, 0, and 61,153, respectively, Common OP Units were redeemed for common shares of SHI.

At December 31, 2013, none of SLP's preferred operating partnership units ("Preferred OP Units") were outstanding. The Preferred OP Units received a preferred dividend distribution of $1.10 per preferred unit annually, payable on a monthly basis and did not participate in the allocations of profits and losses of SLP. All holders elected to have their Preferred OP Units redeemed on October 24, 2012, and the 11,424 units were redeemed at $10 per unit. In October 2011, 39,611 units were redeemed at $10 per unit.

Noncontrolling Interest Reconciliation of Common and Preferred Units

	Redeemable Noncontrolling Interest	Noncontrolling Interest	Total Noncontrolling Interest
Balance at January 1, 2011	$ 511	$ 335	$ 846
Partner draws	(49)	0	(49)
Conversion of OP units	(397)	(119)	(516)
Noncontrolling interest	49	(81)	(32)
Balance at December 31, 2011	$ 114	$ 135	$ 249
Partner draws	(10)	0	(10)
Conversion of OP units	(114)	0	(114)
Noncontrolling interest	10	(20)	(10)
Balance at December 31, 2012	$ 0	$ 115	$ 115
Partner draws	0	0	0
Conversion of OP units	0	0	0
Noncontrolling interest	0	(2)	(2)
Balance at December 31, 2013	$ 0	$ 113	$ 113

Note 12. Common Stock

The Company's common stock is duly authorized, full paid and non-assessable. At December 31, 2013 and 2012, members of the Board of Directors and executive officers owned approximately 10.8% and 14.2%, respectively, of the Company's outstanding common stock.

On March 29, 2011, the Company entered into an equity distribution agreement with JMP Securities LLC ("JMP") pursuant to which the Company may offer and sell up to 250,000 shares of common stock from time to

time through JMP. Sales of shares of the Company common stock, if any, under the agreement may be made in negotiated transactions or other transactions that are deemed to be “at the market” offerings, including sales made directly on the Nasdaq Global Market or sales made to or through a market maker other than on an exchange. The common stock, if sold, will be sold pursuant to a Company’s registration statement filed with the Securities and Exchange Commission. The Company sold through JMP, as its agent, an aggregate of 11,466 shares of common stock in 2011, pursuant to ordinary brokers’ transactions on the Nasdaq Stock Market. Gross proceeds in 2011 were $97, commissions to agent were $5, other miscellaneous expenses were $3, and net proceeds to the Company were $89.

The Company also has Series A preferred stock (see Note 13), Series B preferred stock (see Note 10) and Series C convertible preferred stock (see Note 14), outstanding.

Note 13. Series A Preferred Stock

On December 30, 2005 the Company offered and sold 1,521,258 shares of 8% Series A preferred stock. The shares were sold for $10.00 per share and bear a liquidation preference of $10.00 per share. At December 31, 2013, 2012 and 2011, 803,270 shares each year of Series A preferred stock remained outstanding. Dividends on the Series A preferred stock are cumulative and are payable monthly in arrears on the last day of each month, at the annual rate of 8% of the $10.00 liquidation preference per share, equivalent to a fixed annual amount of $.80 per share. Dividends on the Series A preferred stock accrue regardless of whether or not the Company has earnings, whether there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Commencing with dividends due on December 31, 2013, the Company suspended payment of dividends on its Series A preferred stock to preserve capital and improve liquidity. Unpaid dividends will accumulate and bear additional dividends at 8%, compounded monthly. Undeclared dividends are $54, or 0.067 per share, as of December 31, 2013.

The Series A preferred stock with respect to dividend rights and rights upon the Company’s liquidation, dissolution or winding up, ranks senior to all classes or series of the Company’s common stock, senior or on parity with all other classes or series of preferred stock and junior to all of the Company’s existing and future indebtedness. Upon liquidation all Series A preferred stock will be entitled to $10.00 per share plus undeclared dividends. The Company will not pay any distributions, or set aside any funds for the payment of distributions, on its common shares unless it has also paid (or set aside for payment) the full cumulative distributions on the preferred shares for the current and all past dividend periods. The outstanding preferred shares do not have any maturity date, and are not subject to mandatory redemption.

The Series A preferred stock had no conversion rights, the former conversion rights of the Series A preferred stock were cancelled as of February 20, 2009.

The Series A preferred stock will be redeemable on or after January 1, 2009 for cash, at the Company’s option, in whole or from time to time in part, at $10.00 per share, plus undeclared dividends to the redemption date.

Note 14. Series C Convertible Preferred Stock

The Company entered into a Purchase Agreement dated November 16, 2011 for the issuance and sale of Supertel’s Series C convertible preferred stock and warrants under a private transaction to Real Estate Strategies, L.P. a Bermuda Partnership (“RES”). On January 31, 2012 at a special meeting, the shareholders of Supertel, by the requisite vote, approved the issuance and sale of up to 3,000,000 shares of the Series C convertible preferred stock of Supertel, up to 30,000,000 shares of common stock of Supertel which may be issued upon conversion of the

Series C convertible preferred stock, and warrants to purchase up to an additional 30,000,000 shares of common stock, to RES pursuant to the Purchase Agreement. In two closings on February 1, 2012 and February 15, 2012, the Company completed the sale to RES of 3,000,000 shares of Series C convertible preferred stock and warrants to purchase 30,000,000 shares of common stock at an exercise price of $1.20 per common share. In connection with the one-for-eight reverse split, the aggregate number of shares of common stock issuable upon the exercise of the warrants was decreased from 30,000,000 to 3,750,000 shares. The exercise price of the warrants was increased from $1.20 per share of common stock to $9.60 per share.

Each share of Series C convertible preferred stock is entitled to a dividend of $0.625 per year payable in equal quarterly dividends. Each share of Series C convertible preferred stock has a liquidation preference of $10.00 per share, in cash, plus an amount equal to any undeclared dividends. Undeclared dividends on the Series C convertible preferred stock accumulate and earn additional dividends at 6.25% interest, compounded quarterly. With respect to dividend rights and rights upon the Company's liquidation, dissolution or winding up, the Series C convertible preferred stock ranks: (a) on parity with the Series A preferred stock and Series B preferred stock and other future series of preferred stock designated to rank on parity, and (b) senior to the common stock and other future series of preferred stock designated to rank junior, and (c) junior to the Company's existing and future indebtedness. On December 11, 2013, the Company's board of directors elected to suspend the payment of monthly dividends on the outstanding shares of its Series C Cumulative Preferred Stock. Undeclared dividends are $469, or 0.156 per share, as of December 31, 2013.

The Series C convertible preferred stock, at the option of the holder, is convertible at any time into common stock at a conversion price of $8.00 for each share of common stock, which is equal to the rate of 1.25 shares of common stock for each share of Series C convertible preferred stock. A holder of Series C convertible preferred stock will not have conversion rights to the extent the conversion would cause the holder and its affiliates to beneficially own more than 34% of voting stock (the "Beneficial Ownership Limitation"). "Voting stock" means capital stock having the power to vote generally for the election of directors of the Company. A holder of warrants would similarly not have exercise rights to the extent the exercise of a warrant would cause the holder and its affiliates to own capital stock in an amount exceeding the Beneficial Ownership Limitation.

The Series C convertible preferred stock will vote with the common stock as one class, subject to certain voting limitations. For any vote, the voting power of the Series C convertible preferred stock will be equal to the lesser of: (a) 0.78625 vote per share (which will be reduced as described below) or (b) an amount of votes per share such that the vote of all shares of Series C convertible preferred stock in the aggregate equal 34% of the combined voting power of all the Company voting stock, minus an amount equal to the number of votes represented by the other shares of voting stock beneficially owned by RES and its affiliates (the "Voting Limitation").

As long as RES has the right to designate two or more directors to the Company Board of Directors pursuant to the Directors Designation Agreement, the following requires the approval of RES and IRSA Inversiones y Representaciones Sociedad Anónima:

- the merger, consolidation, liquidation or sale of substantially all of the assets of the Company;
- the sale by the Company of common stock or securities convertible into common stock equal to 20% or more of the outstanding common stock or voting stock; or
- any Company transaction of more than $120,000 in which any of its directors or executive officers or any member of their immediate family will have a material interest, exclusive of employment compensation and interests arising solely from the ownership of the Company equity securities if all holders of that class of equity securities receive the same benefit on a pro rata basis.

Note 15. Stock-Based Compensation

The Company has a 2006 Stock Plan (the "Plan") which has been approved by the Company's shareholders. The Plan authorizes the grant of stock options, stock appreciation rights, restricted stock and stock bonuses for up to 62,500 shares of common stock. At the annual shareholders meeting on May 22, 2012, the shareholders of the Company approved an amendment which (a) removed the restrictions in the Plan that prohibit more than 20% of the awards being given to any one participant or to the independent directors as a group, or prohibiting more than 20% of the awards being made in restricted stock or bonus shares, and (b) increased the number of shares available under the Plan from 37,500 shares to 62,500 shares.

Options

As of December 31, 2013, 17,295 stock options have been awarded under the Plan. The exercise price is equal to the average of the high and low sales price of the stock as reported on the National Association of Securities Dealers Automated Quotation system (NASDAQ) on the grant date. A total of 17,295 shares of common stock have been reserved for issuance pursuant to the Plan with respect to the granted options.

On July 15, 2013, the Company granted share awards and stock options to an executive officer of the Company outside of the 2006 Stock Plan as an inducement material to the executive's acceptance of employment. The share awards total 3,125 authorized but previously unissued shares of the Company's common stock with a grant date price of $7.28. The shares vest based on continued employment of the executive, and the restrictions lapse in 33.3% increments on each of the first, second and third anniversaries of issuance. There were 3,125 unvested awards as of December 31, 2013. The stock options entitle the executive to purchase 3,125 authorized but previously unissued shares of the Company's common stock at an exercise price of $8.08 per share. The stock options have a four-year term and vest in equal one-third increments on each of the first, second and third anniversaries of issuance provided that the executive is employed by the Company on each such vesting date. The stock options and share awards will become fully vested in the event of a change of control of the company or upon the executive's death or disability.

As of December 31, 2013, the total unrecognized compensation cost related to non-vested stock options awards was $4, which is expected to be recognized over the next 31 months.

During 2013 and 2012 the Company's options granted were 3,125 and 5,625, respectively, with a weighted average grant date fair value per option of $1.61 and $0.39, respectively. The total intrinsic value of options exercised was $0 for all three fiscal years 2013, 2012 and 2011. The closing market price of our common stock on the last day of 2013 was $2.44 per share. There is no intrinsic value for the vested options as of December 31, 2013 and 2012.

The Company records compensation expense for stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. The Company uses historical data among other factors to estimate the expected price volatility, the expected option life, the dividend rate and expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield in effect at the time of grant for the estimated life of the option. The following table summarizes the estimates used in the Black-Scholes option-pricing model related to the 2013 and 2012 grants:

	Grant Date	
	07/15/13	12/04/12
Volatility	48.60 %	54.00 %
Expected dividend yield	6.00 %	0.80 %
Expected term (in years)	4.00	4.00
Risk free interest rate	1.02 %	0.49 %

The following table summarizes the Company's activities with respect to its stock options for the year ended December 31, 2013 as follows:

	Shares	Weighted-Average Exercise Price	Aggregate Fair Value	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2012	27,875	$ 11.03	$ 80		
Granted	3,125	8.08	10		
Exercised	0	0.00	0		
Forfeited or expired	10,937	12.32	30		
Outstanding at December 31, 2013	20,063	$ 9.86	$ 54	1.89	$ 0.00
Exercisable at December 31, 2013	16,938	$ 10.19	$ 49	1.59	$ 0.00

Non Vested Share Awards

During 2013 and 2012, the Company granted 2,813 and 5,625 non-vested shares of common stock under the 2006 Stock Plan. As of December 31, 2013 and 2012, the Company had 5,938 and 5,625, respectively, non-vested shares of common stock outstanding under the Plan. The shares vest over one to three years following the date of grant. The fair value of the awards is calculated as the fair market value of the shares on the date of grant. The Company recognized $23 and $12 of non-cash compensation for the years ended December 31, 2013 and 2012, respectively, related to this non-vested stock.

As of December 31, 2013 the total unrecognized compensation cost related to non-vested stock awards was $36 and is expected to be recognized over the next 31 months.

Investment Committee Share Compensation

In March 2012 the Board of Directors approved the recommendation by the Compensation Committee that the independent directors serving as members of the Investment Committee receive their monthly Investment Committee fees in the form of shares of the Company's Common Stock issued under the 2006 Stock Plan, priced as the average of the closing price of the stock for the first 20 trading days for the calendar year. The shares issued to the independent directors of the Investment Committee for the twelve months ended December 31, 2013 and 2012 were 2,241 and 3,819, respectively.

Share-Based Compensation Expense

The expense recognized in the consolidated financial statements for the share-based compensation related to employees and directors for the years ended December 31, 2013, 2012 and 2011 was $56, $44 and $29,

respectively. At December 31, 2013, we had unrecognized compensation expense, net of estimated forfeitures, related to non-vested stock awards in the amount of $40. This expense is expected to be recognized over the next 31 months. The amount related to non-vested stock options awards was $4, which is expected to be recognized over the next 31 months. We recognize compensation expense using the straight-line method over the vesting period.

Note 16. Supplementary Data

The following tables present our unaudited quarterly results of operations for 2013 and 2012:

Supertel Hospitality, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2013, 2012 and 2011
(Dollars in thousands, except per share data)

	Quarters Ended (unaudited)				
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	2013
2013					
Revenues	$ 11,862	$ 15,443	$ 16,292	$ 12,566	$ 56,163
Expenses	13,029	14,042	16,326	12,962	56,359
Earnings (loss) before net losses on disposition of assets, other income, interest, noncontrolling interest and income tax expense (benefit)	(1,167)	1,401	(34)	(396)	(196)
Net losses on dispositions of assets	(29)	(8)	(9)	(1)	(47)
Other income (expense)	(297)	2,131	2,671	5,557	10,062
Interest	(1,473)	(1,465)	(1,479)	(1,546)	(5,963)
Loss on debt extinguishment	(91)	(117)	(161)	(89)	(458)
Impairment losses	0	(7)	(164)	(2,495)	(2,666)
Earnings (loss) from continuing operations before income taxes	(3,057)	1,935	824	1,030	732
Income tax expense (benefit)	0	0	0	0	0
Earnings (loss) from continuing operations	(3,057)	1,935	824	1,030	732
Discontinued operations	(1,008)	443	875	(2,395)	(2,085)
Net earnings (loss)	(4,065)	2,378	1,699	(1,365)	(1,353)
Noncontrolling interest	7	(4)	(3)	2	2
Net income (loss) attributable to controlling interests	(4,058)	2,374	1,696	(1,363)	(1,351)
Preferred stock dividend declared and undeclared	(837)	(837)	(837)	(838)	(3,349)
Net earnings (loss) available to common shareholders	$ (4,895)	$ 1,537	$ 859	$ (2,201)	$ (4,700)
NET EARNINGS (LOSS) PER COMMON SHARE - BASIC AND DILUTED					
EPS from continuing operations	$ (1.35)	$ 0.38	$ (0.01)	$ 0.07	$ (0.91)
EPS from discontinued operations	$ (0.35)	$ 0.15	$ 0.31	$ (0.83)	$ (0.72)
EPS Basic and Diluted	$ (1.70)	$ 0.53	$ 0.30	$ (0.76)	$ (1.63)

Supertel Hospitality, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2013, 2012 and 2011
(Dollars in thousands, except per share data)

	Quarters Ended (unaudited)				
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012	2012
2012					
Revenues	$ 11,799	$ 15,944	$ 17,031	$ 13,431	$ 58,205
Expenses	12,194	13,756	14,792	13,370	54,112
Earnings before net losses on disposition of assets, other income, interest, noncontrolling interest and income tax expense (benefit)	(395)	2,188	2,239	61	4,093
Net gains (losses) on dispositions of assets	(3)	(2)	13	(5)	3
Other income	(1,212)	872	(1,138)	1,334	(144)
Interest	(1,449)	(1,388)	(1,377)	(1,477)	(5,691)
Loss on debt extinguishment	(12)	(38)	(1)	(87)	(138)
Impairment losses	266	(2,735)	0	(364)	(2,833)
Loss from continuing operations before income taxes	(2,805)	(1,103)	(264)	(538)	(4,710)
Income tax expense (benefit)	(314)	381	282	6,088	6,437
Loss from continuing operations	(2,491)	(1,484)	(546)	(6,626)	(11,147)
Discontinued operations	(1,480)	3,924	(1,720)	203	927
Net earnings (loss)	(3,971)	2,440	(2,266)	(6,423)	(10,220)
Noncontrolling interest	6	(8)	1	11	10
Net income (loss) attributable to controlling interests	(3,965)	2,432	(2,265)	(6,412)	(10,210)
Preferred stock dividend	(657)	(837)	(837)	(838)	(3,169)
Net earnings (loss) available to common shareholders	$ (4,622)	$ 1,595	$ (3,102)	$ (7,250)	$ (13,379)
NET EARNINGS (LOSS) PER COMMON SHARE - BASIC AND DILUTED					
EPS from continuing operations	$ (1.09)	$ (0.81)	$ (0.48)	$ (2.58)	$ (4.96)
EPS from discontinued operations	$ (0.51)	$ 1.36	$ (0.60)	$ 0.07	$ 0.32
EPS Basic and Diluted	$ (1.60)	$ 0.55	$ (1.08)	$ (2.51)	$ (4.64)

Note 17. Litigation

Various claims and legal proceedings arise in the ordinary course of business and may be pending against the Company and its properties. Based upon the information available, the Company believes that the resolution of any of the claims and legal proceedings should not have a material adverse affect on its consolidated financial position, results of operations or cash flows. A lawsuit has been filed against the Company in Muscogee County

Superior Court in Columbus, Georgia; filed by a plaintiff on October 22, 2013. The plaintiff is alleging injury from an altercation with an employee at the Columbus, Georgia Super 8. The Plaintiff is seeking to recover for damages arising out of physical and mental injury, lost wages, pain and suffering, past and future medical expenses and punitive or exemplary damages.

The Company has not recorded a liability for the unsettled claim as the amount of the loss contingency is not reasonably estimable. The Company will continue to evaluate whether the loss contingency amounts are estimable. The damages claimed by the plaintiff for the unsettled claim are in excess of $5.0 million. The company retains three tranches of commercial general liability insurance with aggregate limits of $51 million. There are no deductibles on any of the tranches.

Note 18. Subsequent Events

On January 9, 2014, the Company entered into a loan agreement with RES, whereby the Company may borrow up to $2,000,000 from time to time in revolving loans, subject to the conditions therein. In the event the Company does not complete a rights offering of common stock on or before April 15, 2014, RES has the option until July 9, 2015, the maturity date of the loan agreement, subject to any ownership limitations RES may then be subject to, to convert up to $2,000,000 of the loan into a number of shares of common stock of the Company (the "Loan Conversion") determined at the rate per share equal to the greater of (a) the average weighted price of the common stock of the Company for the five trading days preceding the day RES exercises the Loan Conversion, or (b) the greater of book or market value of the common stock at the time, and as determined, with respect to Nasdaq Marketplace Rule 5635(d).

Our loan facilities with GE require us to maintain certain financial covenants. As of December 31, 2013, our before dividend fixed charge coverage ratio (FCCR) with respect to our GE-encumbered properties (as defined in the loan agreement) was 1.30:1 (with a requirement of 1.30:1), our before dividend consolidated FCCR (as defined in the loan agreement) was 1.01:1 (versus a requirement of 1.20:1) and our after dividend consolidated FCCR (as defined in the loan agreement) was 0.78:1 (versus a requirement of 1.00:1). Further, the Company does not currently project that it will be able to satisfy these covenants as of March 31, 2014. On March 14, 2014, the Company received a waiver for non-compliance with these covenants as of December 31, 2013 and March 31, 2014.

In connection with the waiver, our loan facilities with GE were also amended to require that, through the term of the loans, we maintain: (a) a minimum before dividend FCCR with respect to our GE-encumbered properties (based on a rolling 12-month period) of 1.10:1 as of June 30, 2014, which requirement increases periodically thereafter to 1.20:1 as of December 31, 2014; (b) a maximum loan to value ratio with respect to our GE-encumbered properties of 70% as of June 30, 2014, which requirement decreases periodically thereafter to 60% as of December 31, 2014; (c) a minimum before dividend consolidated FCCR (based on a rolling 12-month period) of 0.70:1 as of June 30, 2014, which requirement increases periodically thereafter to 1.00:1 as of December 31, 2014; and (d) a minimum after dividend consolidated FCCR (based on a rolling 12-month period) of 0.75:1 as of June 30, 2014, which requirement increases periodically thereafter to 1.00:1 as of December 31, 2014.

The GE amendment, among other things, also: (a) provides that the consolidated FCCRs are not required to be tested as of the end of any fiscal quarter if the loan to value ratio with respect to our GE-encumbered properties is 60% or less; (b) implements changes beneficial to the Company regarding release of collateral, prepayment fees and loan reamortizations; (c) requires that any variable rate loans remaining outstanding as of December 31, 2014 be converted to fixed rate loans bearing interest at 4.75%; and (d) requires payment of a $380,000 modification fee.

On March 10, 2014 the Company sold a Super 8 in Shawano, Wisconsin (55 rooms) for $1.1 million. Proceeds were used to reduce the balance of the revolving credit facility with Great Western Bank.

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Supertel Hospitality, Inc. and Subsidiaries
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
As of December 31, 2013

		Initial Cost		Additions, (Dispositions), (Impairments) Subsequent to Acquisition		Gross Amount at December 31, 2013			
Hotel and Location	Encumbrance	Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Accumulated Depreciation	Net Book Value
Comfort Inn									
Chambersburg, Pennsylvania	MS	$ 89,000	$ 2,346,362	$ 0	$ 425,791	$ 89,000	$ 2,772,153	$ (1,342,425)	$ 1,518,728
Culpeper, Virginia	MS	182,264	2,142,652	0	707,581	182,264	2,850,233	(1,353,377)	1,679,120
Farmville, Virginia	MS	253,618	2,162,087	0	640,161	253,618	2,802,248	(1,539,741)	1,516,125
Morgantown, West Virginia	MS	398,322	3,853,651	0	1,106,168	398,322	4,959,819	(2,616,149)	2,741,992
New Castle, Pennsylvania	MS	56,648	4,101,254	0	785,014	56,648	4,886,268	(2,304,123)	2,638,793
Princeton, West Virginia	MS	387,567	1,774,501	0	827,416	387,567	2,601,917	(1,476,188)	1,513,296
Rocky Mount, Virginia	MS	193,841	2,162,429	0	548,606	193,841	2,711,035	(1,280,956)	1,623,920
Solomons, Maryland	GE	2,303,990	2,988,255	0	2,134,318	2,303,990	5,122,573	(3,221,175)	4,205,388
Alexandria, Virginia	MPC	2,500,000	9,373,060	0	1,945,262	2,500,000	11,318,322	(2,833,270)	10,985,052
Glasgow, Kentucky	GE	500,000	2,456,305	0	632,760	500,000	3,089,065	(811,555)	2,777,510
Shelby, North Carolina	MS	253,921	2,782,042	0	1,968,090	253,921	4,750,132	(2,375,219)	2,628,834
Harlan, Kentucky	GE	0	2,949,276	0	1,613,147	0	4,562,423	(1,622,576)	2,939,847
Super 8									
Creston, Iowa	MS	56,000	840,580	89,607	2,454,344	145,607	3,294,924	(2,031,011)	1,409,520
Columbus, Nebraska	SOLD	51,716	571,178	(51,716)	(571,178)	0	0	0	0
O'Neill, Nebraska	MS	75,000	667,074	46,075	1,207,571	121,075	1,874,645	(1,163,315)	832,405
Omaha, Nebraska	GWB	164,034	1,053,620	0	1,310,855	164,034	2,364,475	(1,685,189)	843,320
Lincoln, Nebraska (Cornhusker)	GWB	226,174	1,068,520	271,817	1,967,154	497,991	3,035,674	(2,063,046)	1,470,619
Keokuk, Iowa	MS	55,000	642,783	71,175	658,949	126,175	1,301,732	(1,009,212)	418,695
Iowa City, Iowa	MS	227,290	1,280,365	0	669,753	227,290	1,950,118	(1,518,655)	658,753
Kirksville, Missouri	GWB	151,225	830,457	0	435,318	151,225	1,265,775	(929,580)	487,420
Burlington, Iowa	MS	145,000	867,116	0	418,248	145,000	1,285,364	(933,400)	496,964
Hays, Kansas	GWB	317,762	1,133,765	19,519	548,075	337,281	1,681,840	(1,266,117)	753,004
Moberly, Missouri	GWB	60,000	1,075,235	0	503,832	60,000	1,579,067	(1,182,921)	456,146
Pittsburg, Kansas	MS	130,000	852,131	0	401,547	130,000	1,253,678	(930,849)	452,829
Manhattan, Kansas	GWB	261,646	1,254,175	(10,000)	704,869	251,646	1,959,044	(1,353,562)	857,128
Mt. Pleasant, Iowa	MS	85,745	536,064	21,508	613,297	107,253	1,149,361	(799,730)	456,884
Pella, Iowa	SOLD	61,853	664,610	(61,853)	(664,610)	0	0	0	0
Storm Lake, Iowa	MS	90,033	819,202	41,344	660,733	131,377	1,479,935	(949,208)	662,104

Supertel Hospitality, Inc. and Subsidiaries
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
As of December 31, 2013

		Initial Cost		Additions, (Dispositions), (Impairments) Subsequent to Acquisition		Gross Amount at December 31, 2013			
Hotel and Location	Encumbrance	Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Accumulated Depreciation	Net Book Value
Super 8 - continued									
West Plains, Missouri	GWB	$ 112,279	$ 861,178	$ 0	$ 288,525	$ 112,279	$ 1,149,703	$ (766,280)	$ 495,702
Jefferson City, Missouri	SOLD	264,707	1,206,886	(264,707)	(1,206,886)	0	0	0	0
Wayne, Nebraska	SOLD	79,127	685,135	(79,127)	(685,135)	0	0	0	0
Batesville, Arkansas	GWB	81,483	811,371	0	438,733	81,483	1,250,104	(604,331)	727,256
Omaha, Nebraska (West Dodge)	GWB	593,518	1,758,275	(30,027)	415,885	563,491	2,174,160	(1,233,901)	1,503,750
Norfolk, Nebraska	FSB	226,971	1,587,581	0	655,041	226,971	2,242,622	(1,228,496)	1,241,097
Fort Madison, Iowa	SOLD	104,855	871,075	(104,855)	(871,075)	0	0	0	0
Portage, Wisconsin	MS	203,032	1,839,321	0	390,958	203,032	2,230,279	(1,214,913)	1,218,398
Shawano, Wisconsin	FSB	244,935	1,672,123	(40,546)	92,696	204,389	1,764,819	(981,835)	987,373
Tomah, Wisconsin	GWB	211,975	2,079,714	(59,834)	478,167	152,141	2,557,881	(1,384,568)	1,325,454
Menomonie, Wisconsin	MS	451,520	2,398,446	0	459,196	451,520	2,857,642	(1,421,609)	1,887,553
Clarinda, Iowa	GWB	75,000	1,276,923	0	238,087	75,000	1,515,010	(445,607)	1,144,403
Billings, Montana	GE	518,000	4,807,220	0	311,635	518,000	5,118,855	(1,108,466)	4,528,389
Boise, Idaho	GE	612,000	5,709,976	(308,414)	(2,847,432)	303,586	2,862,544	(440,791)	2,725,339
Columbus, Georgia	GE	441,000	4,173,299	(276,343)	(2,597,356)	164,657	1,575,943	(247,825)	1,492,775
Terre Haute, Indiana	GE	547,000	4,976,600	(314,145)	(2,627,756)	232,855	2,348,844	(588,198)	1,993,501
Green Bay, Wisconsin	GE	570,000	2,784,052	(16,031)	111,838	553,969	2,895,890	(585,417)	2,864,442
Sleep Inn									
Omaha, Nebraska	EVB	400,000	3,275,773	(73,924)	(223,844)	326,076	3,051,929	(437,875)	2,940,130
Louisville, Kentucky	SOLD	350,000	1,288,002	(350,000)	(1,288,002)	(0)	0	0	(0)
Quality Inn									
Danville, Kentucky	MS	155,717	2,971,403	0	865,617	155,717	3,837,020	(2,037,716)	1,955,021
Minocqua, Wisconsin	SOLD	214,505	1,458,389	(214,505)	(1,458,389)	0	0	0	0
Sheboygan, Wisconsin	GWB	286,970	1,716,782	0	627,861	286,970	2,344,643	(1,186,939)	1,444,674
Clarion									
Cleveland, Tennessee	MS	212,914	2,370,499	0	1,121,611	212,914	3,492,110	(1,898,051)	1,806,973

Additions, (Dispositions),
(Impairments)

Supertel Hospitality, Inc. and Subsidiaries
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
As of December 31, 2013

		Initial Cost		Subsequent to Acquisition		Gross Amount at December 31, 2013			
Hotel and Location	Encumbrance	Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Accumulated Depreciation	Net Book Value
Rodeway Inn									
Fayetteville, North Carolina	CITI	$ 725,000	$ 3,910,514	$ 0	$ 600,363	$ 725,000	$ 4,510,877	$ (1,500,097)	$ 3,735,780
Fayetteville Car Wash, North Carolina	CITI	0	164,128	0	8,707	0	172,835	(73,842)	98,993
Comfort Suites									
Ft. Wayne, Indiana	CITI	1,200,000	4,803,605	0	1,473,356	1,200,000	6,276,961	(1,953,780)	5,523,181
Lafayette, Indiana	CITI	850,000	3,473,808	0	640,482	850,000	4,114,290	(1,274,616)	3,689,674
Marion, Indiana	CITI	430,000	1,945,383	0	825,738	430,000	2,771,121	(910,813)	2,290,308
South Bend, Indiana	GE	500,000	11,512,314	(196,456)	1,106,341	303,544	12,618,655	(3,209,613)	9,712,586
Warsaw, Indiana	CITI	650,000	2,500,570	0	566,644	650,000	3,067,214	(925,570)	2,791,644
Louisville, Kentucky	SOLD	500,000	2,186,715	(500,000)	(2,186,715)	(0)	0	0	(0)
Guest House Inn									
Ellenton, Florida	SOLD	290,373	2,102,371	(290,373)	(2,102,371)	0	0	0	0
Baymont Inn									
Brooks, Kentucky	GE	500,000	2,008,474	(212,952)	(490,588)	287,048	1,517,886	(486,975)	1,317,959
Days Inn									
Farmville, Virginia	MS	384,591	1,967,727	0	495,522	384,591	2,463,249	(1,328,557)	1,519,283
Alexandria, Virginia	MPC	2,500,000	6,544,271	0	1,909,411	2,500,000	8,453,682	(2,309,193)	8,644,489
Fredericksburg South, Virginia	SOLD	1,510,000	1,786,979	(1,510,000)	(1,786,979)	0	0	0	0
Shreveport, Louisiana	NON	1,250,000	2,964,484	(877,873)	(1,148,257)	372,127	1,816,227	(757,057)	1,431,297
Bossier City, Louisiana	GWB	1,025,000	5,117,686	(613,872)	(2,407,230)	411,128	2,710,456	(721,584)	2,400,000
Fredericksburg North, Virginia	SOLD	650,000	3,142,312	(650,000)	(3,142,312)	0	0	0	0
Ashland, Kentucky	GE	320,000	1,303,003	0	448,415	320,000	1,751,418	(530,220)	1,541,198
Glasgow, Kentucky	GE	425,000	2,206,805	0	205,759	425,000	2,412,564	(535,754)	2,301,810
Sioux Falls, Airport	GE	0	2,397,714	0	37,318	0	2,435,032	(622,238)	1,812,794
Sioux Falls, Empire	GE	480,000	1,988,692	(4,664)	295,517	475,336	2,284,209	(548,050)	2,211,495

Additions, (Dispositions),
(Impairments)

Supertel Hospitality, Inc. and Subsidiaries
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
As of December 31, 2013

		Initial Cost		Subsequent to Acquisition		Gross Amount at December 31, 2013			
Hotel and Location	Encumbrance	Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Accumulated Depreciation	Net Book Value
Extended Stay-Savannah Suites									
Atlanta, Georgia	GE	$ 1,865,000	$ 3,997,960	$ (981,833)	$ (1,789,223)	$ 883,167	$ 2,208,737	$ (541,662)	$ 2,550,242
Augusta, Georgia	GE	750,000	3,816,246	(209,297)	(587,655)	540,703	3,228,591	(944,628)	2,824,666
Chamblee, Georgia	GE	1,650,000	3,563,648	0	171,693	1,650,000	3,735,341	(910,007)	4,475,334
Greenville, South Carolina	GE	550,000	3,408,375	(255,316)	(1,462,218)	294,684	1,946,157	(393,729)	1,847,112
Jonesboro, Georgia	GE	875,000	2,978,463	(556,072)	(1,682,776)	318,928	1,295,687	(356,104)	1,258,511
Savannah, Georgia	GE	1,250,000	4,052,678	(535,827)	(1,746,269)	714,173	2,306,409	(320,245)	2,700,337
Stone Mountain, Georgia	GE	725,000	3,840,600	(433,101)	(2,091,960)	291,899	1,748,640	(386,945)	1,653,594
Supertel Inn									
Creston, Iowa	GWB	234,866	2,708,224	0	41,658	234,866	2,749,882	(834,311)	2,150,437
Key West Inns									
Key Largo, Florida	MS	339,425	3,238,530	0	1,373,819	339,425	4,612,349	(2,265,682)	2,686,092
Masters									
Columbia-I26, South Carolina	SOLD	450,000	1,395,861	(450,000)	(1,395,861)	(0)	0	0	(0)
Columbia-Knox Abbot Dr, South Carolina	SOLD	0	1,474,612	0	(1,474,612)	0	0	0	0
Charleston North, South Carolina	SOLD	700,000	2,895,079	(700,000)	(2,895,079)	0	0	0	0
Garden City, Georgia	SOLD	570,000	2,443,603	(570,000)	(2,443,603)	(0)	0	0	(0)
Tampa East, Florida	SOLD	192,416	3,413,132	(192,416)	(3,413,132)	0	0	0	0
Tuscaloosa, Alabama	SOLD	740,000	4,025,844	(740,000)	(4,025,844)	(0)	0	0	(0)
Hilton Garden Inn									
Dowell, Maryland	CAN	1,400,000	9,815,044	0	468,507	1,400,000	10,283,551	(506,819)	11,176,732
Subtotal Hotel Properties		42,716,828	226,924,226	(12,175,034)	(10,260,388)	30,541,794	216,663,838	(83,553,458)	163,652,174
Construction in progress		0	0	0	617,075	0	617,075	0	617,075
Office building		68,765	1,516,627	(68,765)	(872,116)	0	644,511	(558,162)	86,349
Total		$ 42,785,593	$ 228,440,853	$ (12,243,799)	$ (10,515,429)	$ 30,541,794	$ 217,925,424	$ (84,111,620)	$ 164,355,598

Encumbrance codes refer to the following lenders:

MS	Morgan Stanley		GE	GE Franchise Finance		CITI	Citigroup Global Markets Realty
GWB	Great Western Bank		MPC	Middle Patent Capital		CAN	Cantor
FSB	First State Bank		NON	Unencumbered		EVB	Elkhorn Valley Bank

Supertel Hospitality, Inc. and Subsidiaries
NOTES TO SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2013

	ASSET BASIS		Total
(a)	**Balance at January 1, 2011**	$	338,380,198
	Additions to buildings and improvements	$	4,963,538
	Disposition of buildings and improvements		(16,983,570)
	Impairment loss		(19,207,224)
	Balance at December 31, 2011	$	307,152,942
	Additions to buildings and improvements	$	17,168,418
	Disposition of buildings and improvements		(32,488,064)
	Impairment loss		(12,343,775)
	Balance at December 31, 2012	$	279,489,521
	Additions to buildings and improvements	$	6,584,523
	Disposition of buildings and improvements		(29,462,989)
	Impairment loss		(8,143,837)
	Balance at December 31, 2013	$	248,467,218

	ACCUMULATED DEPRECIATION		Total
(b)	**Balance at January 1, 2011**	$	98,146,022
	Depreciation for the period ended December 31, 2010	$	9,996,077
	Depreciation on assets sold or disposed		(5,324,345)
	Impairment loss		(4,899,083)
	Balance at December 31, 2011	$	97,918,671
	Depreciation for the period ended December 31, 2011	$	8,787,781
	Depreciation on assets sold or disposed		(16,135,646)
	Impairment loss		(2,171,898)
	Balance at December 31, 2012	$	88,398,908
	Depreciation for the period ended December 31, 2012	$	7,294,142
	Depreciation on assets sold or disposed		(10,523,012)
	Impairment loss		(1,058,418)
	Balance at December 31, 2013	$	84,111,620

(c) The aggregate cost of land, buildings, furniture and equipment for Federal income tax purposes is approximately 282 million (unaudited).

(d) Depreciation is computed based upon the following useful lives:
Buildings and improvements 15 - 40 years
Furniture and equipment 3 - 12 years

(e) The Company has mortgages payable on the properties as noted. Additional mortgage information can be found in Note 7 to the consolidated financial statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

An evaluation was performed under the supervision of management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15 of the rules promulgated under the Securities and Exchange Act of 1934, as amended. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports the Company files or submits under the Securities Exchange Act of 1934 was (1) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. No changes in the Company's internal controls over financial reporting occurred during the last fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report On Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Securities Exchange Act Rule 13a-15(f). The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's internal control over financial reporting. The Company's management used the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) to perform this evaluation. Based on that evaluation, as a result of the identified material weaknesses described below, the Company's management concluded that the Company's internal control over financial reporting was ineffective as of December 31, 2013.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim annual financial statements will not be prevented or detected.

In connection with management's assessment of internal control over financial reporting, we have identified the following deficiencies in our internal control over financial reporting that we deemed to be material weaknesses.

The Company has implemented a control which requires the review of determinations regarding where held for use property has had an impairment triggering event and, if so, the amount of the impairment. This control requires that follow-up of the items that were identified during the review. Reviewing personnel failed to follow up on items identified during the review. This deficiency resulted in a material misstatement to investments in hotel properties in the preliminary consolidated financial statements, which was corrected by management prior to the issuance of the consolidated financial statements.

The Company's process for the review of supporting documents and calculations for the purposes of reflecting transactions in the financial statements did not operate effectively. Management's review failed to detect errors in certain inputs and supporting calculations regarding financial statement amounts. This deficiency resulted in a material misstatement to derivative liabilities in the preliminary consolidated financial statements, which were corrected by management prior to the issuance of the consolidated financial statements.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Internal control over financial reporting was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Item 9B. Other Information

Because this Annual Report on Form 10-K is being filed within four business days after the applicable triggering events, the information below is being disclosed under this Item 9B instead of under Item 1.01 (Entry into a Material Definitive Agreement) of Form 8-K.

On March 14, 2014, the Company received waivers for non-compliance with certain financial covenants with GE Franchise Finance Commercial LLC ("GE"), and its loan facilities with GE were amended, as described in, and incorporated herein by reference from, Item 7 of this Annual Report on Form 10-K under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors

Information concerning the directors and executive officers of the Company is incorporated by reference from information relating to executive officers of the Company set forth in Part I of this Form 10-K and from the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders (the "2014 Proxy Statement") under the captions "Corporate Governance" and "Election of Directors."

The Company has adopted a Code of Business Conduct and Ethics that applies to the Company's Chief Executive Officer and Chief Financial Officer and has posted the Code of Business Conduct and Ethics on its Web site. The Company intends to satisfy the disclosure requirement under Item 10 of Form 8-K relating to amendments to or waivers from any provision of the Code of Business Conduct and Ethics applicable to the Company's Chief Executive Officer and Chief Financial Officer by posting that information on the Company's Web site at www.supertelinc.com.

Information required by Item 405 of Regulation 5-K is incorporated by reference from the 2014 Proxy Statement under the caption "Section 16 (a) Beneficial Ownership Reporting Compliance."

Item 11. Executive Compensation

Information regarding executive and director compensation is incorporated by reference from the 2014 Proxy Statement under the captions "Compensation Discussion and Analysis," "Compensation Committee Report," "Summary Compensation Table," "Grants of Plan-Based Awards," "Outstanding Equity Awards at Fiscal Year-end," and "Director Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding the stock ownership of each person known to the Company to be the beneficial owner of more than 5% of the Common Stock, of each director and executive officer of Supertel Hospitality, Inc., and all directors and executive officers as a group, is incorporated by reference from the 2014 Proxy Statement under the caption "Ownership of the Company's Common Stock By Management and Certain Beneficial Owners."

Equity Compensation Plan Information

The following table provides information about the Company's common stock that may be issued upon exercise of options, warrants and rights under existing equity compensation plans as of December 31, 2013.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation (including securities plans reflected in column(a)) (c)
Equity compensation plans approved by security holders	16,938	$ 10.19	17,295
Equity compensation plans not approved by security holders	3,125	8.08	-
Total	20,063	$ 9.86	17,295

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to the 2014 Proxy Statement under the caption "Corporate Governance."

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the 2014 Proxy Statement under the caption "Independent Public Registered Accounting Firm."

PART IV

Item 15. Exhibits and Financial Statement Schedules

Section 2 *Financial Statements and Schedules.*

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Exhibits.

3.1 Second Amended and Restated Articles of Incorporation of the Company, as amended (incorporated herein by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K dated August 9, 2013).

3.2 Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated August 29, 2013).

10.1 Third Amended and Restated Agreement of Limited Partnership of Supertel Limited Partnership, as amended (incorporated herein by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).

10.2 First Amended and Restated Master Lease Agreement dated as of November 26, 2002 between Supertel Limited Partnership, E&P Financing Limited Partnership, TRS Leasing, Inc. and Solomons Beacon Inn Limited Partnership (incorporated herein by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.3 Management Agreement dated May 16, 2007 between TRS Leasing, Inc. and HLC Hotels, Inc. (incorporated herein by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.4* Amendment to Management Agreement dated July 15, 2008 between TRS Leasing, Inc. and HLC Hotels, Inc.

10.5 Amendments dated August 9, 2011 and January 21, 2010 to the Management Agreement dated May 16, 2007 between TRS Leasing, Inc. and HLC Hotels, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).

10.6 Management Agreement dated April 21, 2011 between Kinseth Hotel Corporation, TRS Leasing, Inc., TRS Subsidiary, LLC, SPPR TRS Subsidiary, LLC, and SPPR-BMI TRS Subsidiary, LLC (incorporated herein by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.7 Management Agreement dated April 21, 2011 between Strand Development Company, LLC, Strandco, Inc., TRS Leasing, Inc., TRS Subsidiary, LLC, SPPR TRS Subsidiary, LLC, and SPPR-BMI TRS Subsidiary, LLC (incorporated herein by reference to Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.8 Management Agreement dated April 21, 2011 between Hospitality Management Advisors, Inc., TRS Leasing, Inc., TRS Subsidiary, LLC, SPPR TRS Subsidiary, LLC, and SPPR-BMI TRS Subsidiary, LLC (incorporated herein by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.9* Amended and Restated Loan Agreement dated December 3, 2008 by and between the Company and Great Western Bank.

10.10 First Amendment to Amended and Restated Loan Agreement dated February 4, 2009 between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009).

10.11 Second Amendment to Amended and Restated Loan Agreement dated March 29, 2010 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).

10.12 Third Amendment to Amended and Restated Loan Agreement dated March 15, 2011 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).

10.13 Fourth Amendment to Amended and Restated Loan Agreement dated December 9, 2011 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 9, 2011).

10.14 Fifth Amendment to Amended and Restated Loan Agreement dated February 21, 2012 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 21, 2012).

10.15 Sixth Amendment to Amended and Restated Loan Agreement dated effective as of December 31, 2012 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 17, 2013).

10.16 Seventh Amendment to Amended and Restated Loan Agreement dated March 26, 2013 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 26, 2013).

10.17 Eighth Amendment to Amended and Restated Loan Agreement dated July 31, 2013 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).

10.18 Promissory Notes, Loan Agreement and form of Deed to Secure Debt, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated August 18, 2006 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.19 Unconditional Guaranty of Payment and Performance dated August 18, 2006 by the Company to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.20* Amendment No. 1 to the Promissory Note dated August 18, 2006 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation.

10.21 Promissory Note, Loan Agreement and form of Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated January 5, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.22* Amendment No. 1 to the Promissory Note dated January 5, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation.

10.23 Promissory Notes, Loan Agreement and form of Deed to Secure Debt, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated May 16, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.24 Unconditional Guaranty of Payment and Performance dated May 16, 2007 by the Company to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.25* Amendment No. 1 to the Promissory Note dated May 16, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation.

10.26 Global Amendment and Consent dated March 16, 2009 between Supertel Limited Partnership, SPPR-South Bend, LLC and General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009).

10.27 Unconditional Guaranties of Payment and Performance dated March 16, 2009, by the Company and Supertel Hospitality REIT Trust to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009).

10.28 Loan Modification Agreements dated as of September 30, 2009 by and between General Electric Capital Corporation, the Company, Supertel Limited Partnership, Supertel Hospitality REIT Trust and SPPR-South Bend, LLC, (incorporated herein by reference to Exhibits 10.1 and 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).

10.29 Covenant Waiver dated as of November 9, 2009 by General Electric Capital Corporation to the Company, Supertel Limited Partnership, Supertel Hospitality REIT Trust and SPPR-South Bend, LLC. (incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009).

10.30 Loan Modification Agreement dated as of March 25, 2010 by and between General Electric Capital Corporation, Supertel Limited Partnership, SPPR-South Bend, LLC, Supertel Hospitality REIT Trust and the Company (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).

10.31 Loan Modification Agreement dated as of March 29, 2012 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Capital Commercial of Utah, LLC and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 29, 2012).

10.32 Loan Waiver and Collateral Agreement dated as of November 14, 2012 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Capital Commercial of Utah, LLC and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.33 Loan Modification Agreement dated as of August 13, 2013 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).

10.34 Loan Modification Agreement dated as of November 13, 2013 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).

10.35* Loan Modification Agreement dated as of March 14, 2014 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC

10.36 Loan Agreement, dated as of November 2, 2012, between Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC and Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 2, 2012).

10.37 First Amendment to Loan Agreement, dated as of January 3, 2013, between Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC and Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.38 Guaranty of Recourse Obligations of Borrower, dated as of November 2, 2012, by the Company in favor of Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 2, 2012).

10.39 Cash Management Agreement, dated as of November 2, 2012, among Morgan Stanley Mortgage Capital Holdings LLC, Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC, Hospitality Management Advisors, Inc., Kinseth Hotel Corporation and Strandco, Inc. (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated November 2, 2012).

10.40 First Amendment to Cash Management Agreement, dated as of November 5, 2012, among Morgan Stanley Mortgage Capital Holdings LLC, Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC, Hospitality Management Advisors, Inc., Kinseth Hotel Corporation and Strandco, Inc (incorporated herein by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.41 Standby Equity Distribution Agreement dated as of March 26, 2010 between YA Global Master SPV Ltd. and the Company (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 26, 2010).

10.42 Purchase Agreement, dated November 16, 2011, by and among the Company, Supertel Limited Partnership and Real Estate Strategies L.P. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A dated November 16, 2011).

10.43 Warrants issued to Real Estate Strategies L.P. dated February 1, 2012 and February 15, 2012 (incorporated herein by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.44 Investor Rights and Conversion Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated January 30, 2012).

10.45 Registration Rights Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated January 30, 2012).

10.46 Directors Designation Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated January 30, 2012).

10.47 Agreement, dated August 9, 2013, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anonima (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 9, 2013)

10.48 The Company's 2006 Stock Plan (incorporated herein by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.49 Amendment to the Company's 2006 Stock Plan dated May 28, 2009 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 28, 2009).

10.50 Amendment to the Company's 2006 Stock Plan dated May 22, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 22, 2012).

10.51 Form of Stock Option Agreement (incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.52 Employment Agreement of Kelly Walters, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 1, 2012).

10.53 Employment Agreement of Corrine L. Scarpello, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 1, 2012).

10.54 Employment Agreement of David L. Walter, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated February 1, 2012).

10.55 Employment Agreement of Steven C. Gilbert, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated February 1, 2012).

10.56 Jeffrey W. Dougan Employment Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 9, 2013).

10.57 Jeffrey W. Dougan Restricted Stock Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated July 9, 2013).

10.58 Jeffrey W. Dougan Stock Option Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated July 9, 2013).

10.59 Director and Named Executive Officers Compensation is incorporated herein by reference to the sections entitled "Compensation Discussion and Analysis", "Compensation Committee Report", "Summary Compensation Table", "Grants of Plan-Based Awards for Fiscal Year 2013", "Outstanding Equity Awards at Fiscal Year-End", and "Director Compensation" in the Company's Proxy Statement for the Annual Meeting of Stockholders on May 20, 2014.

21.0* Subsidiaries.

23.1* Consent of KPMG LLP.

31.1* Section 302 Certification of Chief Executive Officer.

31.2* Section 302 Certification of Chief Financial Officer.

32.1* Section 906 Certifications.

101.1* The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.

Pursuant to Item 601 (b)(4) of Regulation S-K, certain instruments with respect to the Company's long-term debt are not filed with this Form 10-K. The Company will furnish a copy of any such long-term debt agreement to the Securities and Exchange Commission upon request.

Management contracts and compensatory plans are set forth as Exhibits 10.48 through 10.59.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUPERTEL HOSPITALITY, INC.
By: /s/ Kelly A. Walters
Kelly A. Walters
President and Chief Executive Officer

March 17, 2014

By: /s/Kelly A. Walters
Kelly A. Walters
President and Chief Executive Officer
(principal executive officer and Director)

By: /s/ Corrine L. Scarpello
Corrine L. Scarpello
Chief Financial Officer and Corporate Secretary
(principal financial and accounting officer)

By: /s/ James H. Friend
James H. Friend
Chairman of the Board

By: /s/ Steve H. Borgmann
Steve H. Borgmann
Director

By: /s/ George R. Whittemore
George R. Whittemore
Director

By: /s/ Daniel R. Elsztain
Daniel R. Elsztain
Director

By: /s/ William C. Latham
William C. Latham
Director

By: /s/ Donald J. Landry
Donald J. Landry
Director

By: /s/ John M. Sabin
John M. Sabin
Director

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2013**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number: **001-34087**

Supertel Hospitality, Inc.

(Exact name of registrant as specified in its charter)

Virginia	**52-1889548**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1800 West Pasewalk Avenue, Suite 200 Norfolk, NE	**68701**
(Address of principal executive offices)	(Zip Code)

(402) 371-2520
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share	The NASDAQ Stock Market, LLC
8% Series A Preferred Stock, $.01 par value per share	The NASDAQ Stock Market, LLC
10% Series B Cumulative Preferred Stock, $.01 par value per share	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X] (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes [ ] No [X]

As of June 30, 2013 the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $19.8 million based on the price at which the common stock was last sold on that date as reported on the Nasdaq Global Market.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 28, 2014
Common Stock, $.01 par value per share	2,898,286 shares

DOCUMENTS INCORPORATED BY REFERENCE

None

EXPLANATORY NOTE

Supertel Hospitality, Inc. (“Supertel,” the “Company,” “we,” “us,” or “our”) is filing this Amendment No. 1 on Form 10-K/A (this “Amendment”) to amend our Annual Report on Form 10-K for the year ended December 31, 2013, originally filed with the Securities and Exchange Commission (the “SEC”) on March 17, 2014 (the “Original 10-K Filing”), solely for the purpose of including the information required by Part III of Form 10-K. Such information was previously omitted from the Original 10-K Filing in reliance on General Instruction G(3) to Form 10-K, which permits the information in the above referenced items to be incorporated in the Form 10-K by reference to our definitive proxy statement for the 2014 Annual Meeting of Stockholders if such proxy statement is filed no later than 120 days after our fiscal year end. We are filing this Amendment to include Part III information in our Form 10-K. The reference on the cover of the Original 10-K Filing to the incorporation by reference to portions of our definitive proxy statement into Part III of the Original 10-K Filing is hereby deleted.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Part III, Items 10 through 14 of the Original 10-K Filing are hereby amended and restated in their entirety, and Part IV, Item 15 of the Original 10-K Filing is hereby amended and restated in its entirety, with the only changes being the addition of new certifications by our principal executive officer and principal financial officer filed herewith and related footnotes. This Amendment does not amend or otherwise update any other information in the Original 10-K Filing. Accordingly, this Amendment should be read in conjunction with the Original 10-K Filing and with our filings with the SEC subsequent to the Original 10-K Filing.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers

Information concerning the executive officers of the Company is incorporated by reference from information relating to executive officers of the Company set forth in Part I of the Original 10-K Filing.

Directors

The Company’s articles of incorporation provide that the Board of Directors can set the number of directors, but also provide that the Board of Directors must have no less than three nor more than nine directors. The Board of Directors is presently comprised of eight members.

The names of the Company directors, and certain information about them, are set forth below. The director ages are as of April 1, 2014.

Daniel R. Elsztain, *Director*. Mr. Elsztain, age 41, obtained a degree in Economic Sciences from the Torcuato Di Tella University and has a Masters in Business Administration from the Austral IAE University. At present, he is a member of the board of IRSA Inversiones y Representaciones Sociedad Anónima (“IRSA”), a real estate public company listed both on the New York Stock Exchange ("NYSE") and the Buenos Aires Stock Exchange ("BASE"), as well as its Chief Operating Officer and other executive capacities since 2004. He is a board member of Alto Palermo S.A. (APSA), a retail public company listed both on NASDAQ and BASE. His extensive experience in IRSA’s real estate operations and his participation on other public company boards provides the Board with a source of substantial lodging and real estate knowledge.

Committees: Investment

James H. Friend, *Chairman of the Board.* Mr. Friend, age 62, has been president and CEO of Friend Development Group, LLC since 1997 and has been actively involved in the hotel and real estate business for more than 26 years. Mr. Friend has extensive experience in the development process, including ground-up development, renovations, adaptive re-use and mixed-use developments. He has particular expertise developing and financing complicated real estate projects in urban and suburban areas. Mr. Friend has arranged financing for hotel and other

real estate projects in excess of $500 million. He has worked closely with all major hotel brands, including Hilton, Marriott, Hyatt, Starwood, Intercontinental, Wyndham and Choice. He also has experience working with numerous luxury and independent luxury hotel brands as well as with branded and unbranded boutique hotels. Mr. Friend has partnered with major institutions, investment funds, high net worth families and significant hotel investment groups. He has advised NYSE companies, REIT's, banks, hedge funds and privately held companies in a wide range of real estate product types, including hotels, retail, assisted living, multi-family and mixed-use development.

Mr. Friend is a graduate of Stanford University and the Northwestern University School of Law. He is a member of the Bar of the State of New York. He has served on various philanthropic boards, including the board of directors of the Stanford Alumni Association and currently is the chairman of the Stanford New York Alumni Board. He also has served as an adjunct professor at the Tisch Center for Hospitality, Tourism and Sports Management at New York University.

Mr. Friend's years of work in the hotel and real estate industry provides the Board with a diverse and unique source of hotel and real estate knowledge.

Committees: Audit, Nominating

Donald J. Landry, *Director.* Mr. Landry, age 65, is president and owner of Top Ten, an independent hospitality industry consulting company. Mr. Landry has over forty five years of lodging and hospitality experience in a variety of leadership positions. Most recently, Mr. Landry was the Chief Executive Officer, President and Vice Chairman of Sunburst Hospitality Inc. Mr. Landry has also served as President of Choice Hotels International, Inc., Manor Care Hotel Division and Richfield Hotel Management. Mr. Landry currently serves on the corporate advisory boards of Campo Architects, UniFocus and Windsor Capital Group, Quantum Leap and numerous nonprofit boards. Mr. Landry is a frequent guest lecturer at the University of New Orleans where he serves on the board of the School of Hospitality, Restaurant and Tourism. Mr. Landry holds a bachelor of science from the University of New Orleans, which awarded him Alumnus of the Year in 1999. Mr. Landry is a Certified Hotel Administrator.

Mr. Landry's 44 years of experience in the lodging and real estate industries, including his roles as Chief Executive Officer, President and Vice Chairman of Sunburst Hospitality Inc. and President of Choice Hotels International, Inc., Manor Care Hotel Division and Richfield Hotel Management provides the Board with an experienced source on lodging and real estate industries.

Committee: Investment

William C. Latham, *Director*. Mr. Latham has served as a director of the Company since December 2008. Mr. Latham, age 80, is the founder and Chairman of the Board of Budget Motels, Inc. since 1972. Budget Motels, Inc. owns and operates multiple hotels in several states. Mr. Latham was previously a member of the Board of Directors and served as Chairman of the Commonwealth Savings and Loan Association in Manassas, Virginia. Mr. Latham currently sits on several advisory boards and is an active member of the Virginia Tech Foundation's Board of Directors and its audit committee. Mr. Latham is a graduate of Virginia Polytechnic Institute. He has been active in the ownership and management of hotels since 1972 and, as a veteran of hotel operations and with many years of experience from serving on business and advisory boards, he provides the Board with a significant experienced resource for Company operations.

Committee: Nominating

John M. Sabin, *Directo*r. Since May 2011, Mr. Sabin, age 59, has been the Executive Vice President and Chief Financial Officer of Revolution LLC as well as the Chief Financial Officer of The Stephen Case Foundation and the Case Family Office. Previously he was the Chief Financial Officer and General Counsel of Phoenix Health Systems, Inc. a private healthcare information technology outsourcing and consulting firm, from October 2004 to May 2011. Mr. Sabin was the Chief Financial Officer, General Counsel and Secretary of NovaScreen Biosciences Corporation, a private bioinformatics and contract research biotech company, from January 2000 to October 2004. Prior to joining NovaScreen, Mr. Sabin served as a finance executive with Hudson Hotels Corporation, Vistana,

Inc., Choice Hotels International, Inc., Manor Care, Inc. and Marriott International, Inc. all of which were public companies at the time of his service. In his professional life Mr. Sabin has had commercial lease experience with a national law firm, transactional real estate experience with national hospitality and health care firms, commercial real estate financing experience, IPO experience, as well as experience as an audit committee and board member of several other public companies. Mr. Sabin is a member of the board of trustees of Hersha Hospitality Trust. Mr. Sabin has received Bachelor of Science degrees in Accounting and in University Studies; a Masters of Accountancy and a Masters in Business Administration from Brigham Young University, and he also received a Juris Doctor from the J. Reuben Clark Law School at Brigham Young University. Mr. Sabin is a licensed CPA and is admitted to the bar in several states.

Mr. Sabin's qualifications include substantial hospitality industry experience, as well as his substantial legal, finance and accounting experience. His current and prior service as both General Counsel and Chief Financial Officer of various companies provides the Board with valuable insights with respect to finance, accounting, legal and corporate governance matters.

Committees: Audit, Compensation, Investment

Corrine L. Scarpello, *Director, Senior Vice President and Chief Financial Officer.* Ms. Scarpello became Chief Financial Officer of the Company on August 31, 2009. She joined the Company in November 2005 having worked for a year as a consultant for the Company and its management company. Ms. Scarpello, age 59, previously worked for Mutual of Omaha for 17 years, serving as the Vice President of Accounting and Administration for a subsidiary and as Manager in their mergers and acquisitions department. Ms. Scarpello also has accounting and auditing experience with PricewaterhouseCoopers (formerly Coopers and Lybrand) and is a CPA. Ms. Scarpello is currently a director of Nature Technology Corp., a biotech company. Ms. Scarpello is a graduate of the University of Nebraska at Omaha. Ms. Scarpello's extensive knowledge of the Company's financial information and her financial background provided the Board a significant resource with respect to financial matters of the Company.

Kelly A. Walters, *Director, President and Chief Executive Officer.* Mr. Walters joined the Company and became President and Chief Executive Officer on April 14, 2009. Mr. Walters, age 53, is a former Senior Vice President from October 2006 to April 2009 for North Dakota-based Investors Real Estate Trust (IRET), a self-advised equity real estate investment trust. Prior to IRET, he was Senior Vice President and Chief Investment Officer from 1993 to 2006 of Omaha-based Magnum Resources, Inc., a privately held real estate investment and operating company. Preceding Magnum Resources, Mr. Walters was an officer and senior portfolio manager at Brown Brothers Harriman & Company in Chicago. He also held investment positions with Peter Kiewit Sons' Inc. Mr. Walters is currently a director of Bridges Investment Fund Inc., a publicly traded mutual fund. He holds a B.S.B.A. degree in banking and finance from the University of Nebraska at Omaha and an EMBA from the University of Nebraska. Mr. Walters' experience with real estate investment trusts and many years of experience in real estate investment provides the Board with extensive knowledge of the operation of real estate investment trusts and real estate investments.

Committee: Investment

George R. Whittemore, *Director.* Mr. Whittemore has served as a director of the Company since November 1994. Mr. Whittemore, age 64, retired, served as President and Chief Executive Officer of the Company until August 15, 2004. Mr. Whittemore served as Senior Vice President and director of both Anderson & Strudwick, Incorporated, a brokerage firm based in Richmond, Virginia, and Anderson & Strudwick Investment Corporation, from October 1996 until October 2001. Anderson & Strudwick has served as an underwriter for Company public stock offerings. He served as a director and the President and Managing Officer of Pioneer Federal Savings Bank and its parent, Pioneer Financial Corporation, from September 1982 until August 1994, when these institutions were acquired by a merger with Signet Banking Corporation (now Wells Fargo Corporation). Mr. Whittemore was appointed President of Mills Value Adviser, Inc., a registered investment advisor, in April 1996. Mr. Whittemore is currently a director of Village Bank & Trust in Richmond, Virginia. He is also a director of Lightstone Value Plus Real Estate Investment Trust, Inc. and Lightstone Value Plus Real Estate Investment Trust II, Inc. and serves on the audit committee of these two companies. Mr. Whittemore is a graduate of the University of Richmond.
Mr. Whittemore's experience as a director of real estate trusts and as a former chief executive of the Company

provides significant assistance to the Board in the oversight of Company business and the conduct of Company operations as a real estate investment trust.

Committees: Audit, Compensation, Investment

Section 16(a) Beneficial Ownership Reporting Compliance

Under United States securities laws, the Company's directors and executive officers, and persons who own more than 10% of our common stock, are required to report their ownership of the common stock and any changes in ownership to the Securities and Exchange Commission ("SEC"). These persons are also required by SEC regulations to furnish the Company with copies of these reports. Specific due dates for these reports have been established, and the Company is required to report in this Annual Report any failure to file such reports by those due dates during the 2013 fiscal year.

Based solely upon a review of the reports furnished to the Company or written representations from the Company's directors and executive officers, the Company believes that all of these filing requirements were satisfied by the Company's directors and executive officers, and owners of more than 10% of the common stock on a timely basis except Form 4's for each of Mr. Walters and Ms. Scarpello reporting shares deducted to cover vesting of restricted stock awards were inadvertently filed eleven days late.

Corporate Governance

The Company has adopted a Code of Business Conduct and Ethics that applies to the Company's Chief Executive Officer and Chief Financial Officer and has posted the Code of Business Conduct and Ethics on its Web site at www.supertelinc.com. The Company intends to satisfy the disclosure requirement under Item 10 of Form 8-K relating to amendments to or waivers from any provision of the Code of Business Conduct and Ethics applicable to the Company's Chief Executive Officer and Chief Financial Officer by posting that information on the Company's Web site at www.supertelinc.com.

Audit Committee

The Audit Committee currently consists of Messrs. Sabin (Chairman), Friend, and Whittemore. All members of the Audit Committee are independent within the meaning of the Nasdaq Stock Market listing standards. The Audit Committee is responsible for the engagement of the independent registered public accounting firm, reviews with the independent registered public accounting firm the plans and results of the audit engagement, approves professional services provided by the independent registered public accounting firm, reviews the independence of the independent registered public accounting firm, considers the range of audit and non-audit fees and reviews the adequacy of the Company's internal accounting controls. The Audit Committee pre-approves all audit and non-audit services performed by the independent auditor. The Board of Directors has determined that Messrs. Sabin and Whittemore are audit committee financial experts within the meaning of regulations of the Securities and Exchange Commission (the "SEC"). The Audit Committee operates pursuant to a written charter adopted by the Board of Directors. A copy of the charter is available on our website at www.supertelinc.com in the Investor Relations section under "Governance Docs." The Audit Committee held six meetings during 2013. The Audit Committee has a written policy with respect to its review and approval or ratification of transactions between the Company and a director, executive officer or related person covered by the SEC's rule S-K 404(a).

Item 11. Executive Compensation

The following compensation discussion and analysis provides information which the Compensation Committee of the Board of Directors (the "Committee") believes is relevant to an assessment and understanding of compensation awarded to, earned by or paid to the Company's executive officers listed in the summary compensation table (named executive officers). This discussion should be read in conjunction with the summary compensation table and related tables below.

Compensation Overview and Objective. The Committee has the responsibility for developing and maintaining an executive compensation policy for named executive officers that creates a direct relationship between pay levels and corporate performance and returns to shareholders. The objective of the Company's compensation program is to attract and retain a high caliber of management who will manage the Company in a manner that will promote its goals to achieve long term profitability and to advance the interest of the Company's shareholders. The Committee believes that the performance in 2013 of the named executive officers indicate their commitment to achieving such goals for the Company and its shareholders. The compensation program for named executive officers seeks to achieve the objective of retaining a high caliber of management by:

- providing overall competitive pay levels,
- creating proper incentives to enhance shareholder value,
- rewarding superior performance, and
- compensating at levels that are justified by the returns available to shareholders.

Compensation Practices. The Committee reviews and evaluates the performance of the executive officers during the year, and will award cash bonuses or long-term incentives for significant performance.

The Company adopted the Supertel 2006 Stock Plan in 2006 for the benefit of its named officers and other employees. The plan, approved by the Company shareholders, is the only equity based compensation plan adopted by the Company. The Company does not have a pension plan. The Company's executive officers may participate in its 401(k) Plan on the same terms as other participating employees. The Company does not maintain a perquisite program for its executive officers.

Employment Agreements

In connection with the $30 million investment by Real Estate Strategies L.P. ("RES") in preferred stock of the Company, the Company entered into employment agreements, approved by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") on February 1, 2012 with Kelly A. Walters, President and Chief Executive Officer, and Corrine L. Scarpello, Senior Vice President and Chief Financial Officer. The agreements maintain the named executive's 2011 base salaries. The Company entered into an employment agreement, approved by the Compensation Committee, with Jeffrey W. Dougan on July 15, 2013 with the commencement of his employment as the Company's Chief Operating Officer. Under the agreement Mr. Dougan receives an annual base salary of $190,000, and was paid a cash signing bonus of $25,000 and a relocation expense reimbursement of up to $25,000.

The employment agreements provide that base salaries will be reviewed annually and further provide that the executives will be considered for cash bonuses and option grants annually. Any such bonus is to be based on the recommendation of the Compensation Committee and any such option grant is to be made in the sole discretion of the Compensation Committee. One-third of the severance will be paid in the form of the Company's equity to the extent available from shareholder approved plans. The employment agreements of Mr. Walters and Ms. Scarpello terminate on January 31, 2015. The employment agreement of Mr. Dougan continues until July 14, 2015 and thereafter until terminated by the Company or Mr. Dougan.

Components of Compensation. The Company's executive compensation has three components, each of which is intended to support the overall compensation objective of retaining a high caliber of management. The three components are base salary, annual bonuses, and equity incentives. Since 2006, the Company has had the ability to use equity incentives in the compensation program for named executive officers. The Company paid cash and equity compensation in 2013 to its named executive officers.

Base Salary. Base salary is targeted to be competitive to attract and retain executives qualified to manage a hotel REIT. Base salary is intended to compensate the executive for satisfying the requirements of the position. Salaries for executive officers are typically reviewed by the Compensation Committee on an annual basis and may be changed based on the individual's performance or a change in competitive pay levels in the marketplace.

Historically the Compensation Committee reviews with the Chief Executive Officer an annual salary plan for the Company's executive officers (other than the Chief Executive Officer). The salary plan is modified as deemed appropriate and approved by the Compensation Committee. The annual salary plan is developed by the Chief Executive Officer and is based on his judgment as to the past and expected future contributions of the individual executive. The Compensation Committee reviews and establishes the base salary of the Chief Executive Officer based on the Compensation Committee's assessment of his past performance, leadership in the conduct of the Company's business, and its expectation as to his future contribution in directing the long-term success of the Company.

The Compensation Committee has not reviewed executive salaries for 2014, and executive base salaries remain unchanged from 2013 levels.

Annual Bonuses. No discretionary cash bonuses were awarded to the named executive officers in 2013.

Equity Incentive Plan. Equity stock incentives are provided primarily through grants of stock options to executive officers pursuant to the shareholder approved Company 2006 Stock Plan. The Committee recognizes the value of equity incentives in assisting the Company in the hiring and retaining of management personnel and in enhancing the long-term mutuality of interest between the Company shareholders and its directors, officers and employees. Stock options are granted at the market value on the date of the grant and have value only if the Company's stock price increases. Employees must be employed by the Company at the time of vesting in order to exercise the options.

No equity awards were granted under the Company 2006 Stock Plan to the named executive officers in 2013. Stock options for 25,000 shares of common stock and 25,000 shares of restricted common stock were granted to Mr. Dougan as an inducement material to Mr. Dougan's acceptance of employment with the Company, outside of the Company 2006 Stock Plan.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussion, has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Form 10-K.

COMPENSATION COMMITTEE

George R. Whittemore, *Chairman*
John M. Sabin

Summary Compensation Table

Name and Principal Position	*Year*	*Salary($)*	*Bonus (S)*	*Stock Awards ($)(1)*	*Option Awards ($) (1)*	*All Other Compensation ($)(2)*	*Total ($)*
Kelly A. Walters	2013	290,000	0	0	0	10,200	300,200
Chief Executive Officer	2012	262,000	0	22,500	9,750	36,300	330,550
	2011	262,000	0	0	0	37,800	299,800
Corrine L. Scarpello	2013	200,100	0	0	0	8,408	208,508
Chief Financial Officer	2012	200,100	0	18,000	7,800	8,004	233,904
	2011	200,100	0	0	0	8,004	208,104
Jeffrey W. Dougan (3) Chief Operating Officer	2013	84,038	25,000	22,750	5,000	4,362	141,150
Steven C. Gilbert (4)	2013	144,000	0	0	0	5,760	149,760
Former Chief Operating	2012	144,000	0	0	0	5,760	149,760
Officer	2011	144,000	0	0	0	5,760	149,760
Patrick E. Beans (5) Senior Vice President and Treasurer	2013	133,846	0	0	0	5,354	139,200

(1) These columns reflect the grant date fair value of the stock awards and stock options granted in accordance with FASB Accounting Standards Codification Topic 718. See footnote 12 to the Company's consolidated financial statements presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for the assumptions used in the valuation of these awards.

(2) Amounts for the named executive officers represent contributions credited by the Company during 2013, 2012, and 2011 to its 401(k) plan. Amount for Mr. Walters also includes director fees of $26,500 and $28,000, respectively, earned by him during 2012 and 2011. Mr. Walters no longer receives director fees starting in 2013.

(3) Mr. Dougan became our Chief Operating Officer in July 2013. Mr. Dougan was paid a signing bonus of $25,000 on July 15, 2013 with the commencement of his employment at the Company

(4) Mr. Gilbert retired in December 2013.

(5) Mr. Beans became our Senior Vice President and Treasurer in March 2013.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards				Stock Awards	
Name	*Number of Securities Underlying Unexercised Options (#) Exercisable*	*Number of Securities Underlying Unexercised Options (#) Unexercisable (1)*	*Option Exercise Price ($)*	*Option Expiration Date*	*Number of Shares or Units of Stock That Have Not Vested (#) (2)*	*Market Value of Shares or Units of Stock That Have Not Vested ($)*
Kelly A. Walters Chief Executive Officer	2,500 3,125	0 0	11.36 7.84	Dec. 2, 2014 Dec 4, 2015	1,563	3,814
Corrine L. Scarpello Chief Financial Officer	2,500 2,500	0 0	11.36 7.84	Dec. 2, 2014 Dec. 4, 2015	1,250	3,050
Steven C. Gilbert Chief Operating Officer	2,500	0	11.36	Dec 2, 2014		
Jeffrey W. Dougan Chief Operating Officer	0	3,125	8.08	July 15, 2017	3,125	7,625

(1) The options expiring on July 15, 2017 vest in equal one-third increments on July 15, 2014, 2015 and 2016.

(2) The restricted shares for Mr. Walters and Ms. Scarpello that have not vested will vest on May 22, 2014. The restricted shares for Mr. Dougan that have not vested will vest in one-third increments on July 15, 2014, 2015, and 2016. Market value is based on the closing price of the common stock on December 31, 2013.

Potential Payments Upon Termination or Change-in-Control

The employment agreements with Mr. Walters and Ms. Scarpello provide for the payment of severance in the event the Company terminates employment without cause or the executive terminates employment for good reason. “Cause” for these employment agreements means (a) an unlawful or criminal act by the executive involving moral turpitude or resulting in a financial loss to the Company, or upon conviction of a felony; or (b) subject to certain cure rights of the executive, the executive fails to obey written directions delivered to the executive by the Board or Chief Executive Officer, or the executive commits a material breach of any of the covenants, terms and provisions of the agreement. “Good Reason” means, subject to certain exceptions and cure rights of the Company, the occurrence of one of the following events, without the Employee’s prior written consent, (a) a material diminution in the executive’s duties or responsibilities or any material demotion of the executive, (b) a requirement that the executive work principally from a location outside the 50 mile radius of the current Company offices in Norfolk, Nebraska or Omaha, Nebraska, (c) a material reduction in the executive’s base salary, or (d) upon a change of control of the Company, the Company’s failure to obtain an agreement from any successor of the Company to assume the employment agreement.

The employment agreements of Mr. Walters and Ms. Scarpello terminate on January 31, 2015. Their severance payment is three times their base salary. Severance amounts for both executives reduce by six months

during each year of employment. One-third of the severance will be paid in the form of the Company's equity to the extent available and permissible under shareholder-approved plans.

The employment agreement with Mr. Dougan provides for the payment of severance in the event the Company terminates employment without cause. "Cause" for this employment agreement means (a) an unlawful or criminal act by the executive involving moral turpitude or resulting in a financial loss to the Company, or upon conviction of a felony; or (b) subject to certain cure rights of the executive, the executive fails to obey written directions delivered to the executive by the Board or Chief Executive Officer, or the executive commits a material breach of any of the covenants, terms and provisions of the agreement. His employment agreement continues until July 14, 2015 and continues thereafter until terminated by either the Company or Mr. Dougan. If he is terminated without cause prior to July 15, 2014, he will receive severance, paid in bi-weekly installments, equal to 12 months of his base salary. If he is terminated without cause on or before July 15, 2015, he will receive severance, paid in bi-weekly installments, equal to 12 months of his base salary, reduced by 1/12th for each month he is employed by the Company after July 15, 2014. One-third of the severance may be paid in the form of the Company's equity to the extent available and permissible under shareholder-approved plans.

If on the last day of fiscal 2013 the Company discharged Mr. Walters, Ms. Scarpello or Mr. Dougan without cause or, in the case of Mr. Walters or Ms. Scarpello, the executive terminated for good reason, then the executives would have received a multiple of their current base salary, aggregating for each such executive: Mr. Walters – $725,010; Ms. Scarpello – $500,250; and Mr. Dougan – $190,000.

The Company's shareholder-approved 2006 Stock Plan provides that all outstanding options become immediately exercisable and restricted stock awards immediately vest in the event of a change in control. Additionally, Mr. Dougan's restricted stock award agreement provides that his restricted stock award immediately vests in the event of a change of control (as defined in the Company 2006 Stock Plan). A change in control, defined in the Company's 2006 Stock Plan, generally occurs if: (i) a person, entity or group (excluding Company plans) acquires 50% or more of the Company's common stock or total voting power of the Company's voting securities; (ii) incumbent directors or their replacements (whose election or nomination was approved by at least a majority of then incumbent directors) cease to constitute a majority of the board; (iii) a reorganization, merger, consolidation, or sale of substantially all of the Company's assets occurs unless the Company's shareholders prior to the transaction own after the transaction 50% or more of the voting power of the Company's securities; and (iv) the Company is liquidated or dissolved. If such a change in control had occurred on the last day of fiscal 2013, the incremental value (fair market value of company common stock on such date less exercise price) of unvested options held by Mr. Walters and Ms. Scarpello would have been: Mr. Walters - $-0- and Ms. Scarpello - $-0-; and the value of unvested restricted stock held by Mr. Walters, Ms. Scarpello and Mr. Dougan would have been: Mr. Walters - $3,814, Ms. Scarpello - $3,050 and Mr. Dougan $7,625. The unvested stock options for such individuals and the unvested restricted stock for such individuals are set forth in the Outstanding Equity Awards at Fiscal Year-End table.

Director Compensation

Name	*Fees Earned or Paid in Cash ($)*	*Stock Awards ($)*	*Option Awards ($)*	*Total ($)*
Steve H. Borgmann*	28,000	0	0	28,000
Allen L. Dayton*	20,989	0	0	20,989
Daniel R. Elsztain	27,500	3,765	0	31,265
James H. Friend	35,000	0	0	35,000
Donald J. Landry	28,000	5,647	0	33,647
William C. Latham	29,500	0	0	29,500
John M. Sabin	31,000	3,765	0	34,765
George R. Whittemore	31,000	3,765	0	34,765

* Mr. Dayton resigned from the Board of Directors on October 9, 2013. Mr. Borgmann resigned from the Board of Directors on March 26, 2014.

Each director in 2013 received an annual retainer of $20,000. Additionally, directors received fees of $1,000 per board meeting attended in person and $500 per telephonic board meeting. Committee chairmen received compensation as follows: Audit Committee chairman annual retainer of $3,000 and Compensation Committee chairman annual retainer of $1,500. Each Audit Committee member, other than the chairman, receives a fee of $375 per quarter. Mr. Friend, also received director fees of $5,500 for multi-day meetings and on-site review of potential hotel acquisitions. The Investment Committee chairman receives a monthly fee of $750. Each member of the Investment Committee who is an independent director, other than the chairman, receives a monthly fee of $500. The fees to the Investment Committee are paid quarterly in arrears in common stock issued under the 2006 Stock Plan, based on a value per share equal to the average of the closing price of the common stock during the first 20 trading days of the year.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee was an officer or employee of the Company or any of its subsidiaries during 2013. Mr. Whittemore was an executive officer of the Company from November 2001 to August 2004. No executive officer of the Company served as a member of the compensation committee or as a director of any company where an executive officer of such company is a member of the Compensation Committee or is a director of the Company.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities Ownership of Certain Beneficial Owners and Management

The following table sets forth the beneficial ownership of our common stock and preferred stock as of April 1, 2014 by the following persons (a) each shareholder known to us to beneficially own more than 5% of the outstanding shares of our common stock, (b) each director, (c) each executive officer named in the Summary Compensation Table and (d) all directors and executive officers as a group. A person has beneficial ownership over shares if he or she has or shares voting or investment power over the shares, or the right to acquire that power within 60 days of April 1, 2014.

With respect to our continuing qualification as a real estate investment trust, our Articles of Incorporation contain an ownership limitation, which prohibits both direct and indirect ownership of more than 9.9% of the outstanding shares of our common stock or 9.9% of any series of our preferred stock. Our Articles of Incorporation permit the Board of Directors, in its sole discretion, to exempt a person from this ownership limit if the person

provides representations and undertakings that enable the Board to determine that granting the exemption would not result in Supertel losing its qualification as a REIT. Under the Internal Revenue Service rules, REIT shares owned by certain entities are considered owned proportionately by owners of the entities for REIT qualification purposes. The holder of the Series C convertible preferred stock provided representations and undertakings necessary for the Board to grant such an exemption, including a representation that no individual will own 9.9% or more of any class of Supertel stock (per IRS definitions) as a result of the holder's acquisition of the Series C convertible preferred stock and related warrants for the purchase of common stock.

Name of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership		Percent of Class (1)	
Real Estate Strategies L. P. 2 Church Street	Series C convertible preferred stock	3,000,000	(2)	100	%
Hamilton DO HM CX, Bermuda	common stock	1,488,556	(2)	34.0	%
Mark H. Tallman P.O. Box 4397 Lincoln, NE 68504	common stock	289,704	(3)	9.9	%
2nd Market Capital Advisory Corp. 650 N. High Point Road Madison, WI 53717	Series A preferred stock	73,287	(4)	9.12	%
William C. Latham	common stock	117,951	(5)	4.0	%
Kelly A. Walters	common stock	41,125	(6)	1.4	%
	Series B preferred stock	2,604			
George R. Whittemore	common stock	17,063	(7)		
John M. Sabin	common stock	3,926			
James H. Friend	common stock	1,621			
Donald J. Landry	common stock	3,264			
Daniel R. Elsztain	common stock	2,176			
Corrine L. Scarpello	common stock	12,750	(8)		
	Series B preferred stock	225			
Patrick E. Beans	common stock	0			
Jeffrey W. Dougan	common stock	3,125			
All directors and executive officers as a group (10 persons)	common stock	203,001	(9)	7.0	%
	Series B preferred stock	2,829			

(1) Unless otherwise indicated, beneficial ownership of any named individual does not exceed 1% of the outstanding class of securities. In calculating the indicated percentage, the denominator includes the shares of common stock that would be acquired by the person through the exercise of options or warrants. The denominator excludes the shares of common stock that would be acquired by any other person upon such exercise.

(2) Real Estate Strategies L.P., an investment vehicle indirectly controlled by IRSA Inversiones y Representaciones Sociedad Anónima ("IRSA"), an Argentinean-based publicly traded company, acquired 3,000,000 shares of Series C convertible preferred stock and 30,000,000 warrants from Supertel in a private placement in February 2012. Up to 30,000,000 shares of common stock may be issued upon conversion of the Series C convertible preferred stock, and up to 30,000,000 shares of common stock may be issued upon the exercise of the warrants. Real Estate Strategies L.P. and its affiliates' beneficial ownership of voting stock at

any time is limited to 34% of the issued and outstanding voting stock of Supertel, notwithstanding preferred voting or conversion rights or warrant exercise rights. "Voting stock" includes the common stock, and means capital stock having the power to vote generally for the election of directors of Supertel. The maximum number of shares that Real Estate Strategies L.P. is entitled to receive on April 1, 2014 through the conversion of shares of Series C convertible preferred stock or warrants held by it to purchase common stock is 1,476,833 shares.

Based on information appearing in Form 4's and on Amendment No. 1 to a Schedule 13D filed by the Elsztain Group with the Securities and Exchange Commission on February 17, 2012, the Elsztain Group, which includes Real Estate Strategies L.P., has shared voting and shared dispositive power over 11,723 shares of common stock and the 3,000,000 shares of Series C convertible preferred stock. The Elsztain Group, for purposes of Section 13(d)(3) of the Exchange Act, consists of Eduardo S. Elsztain, and the following entities controlled, either directly or indirectly, by Mr. Elsztain: Consultores Assets Management S.A., Consultores Venture Capital Uruguay S.A., Agroinvestment S.A., Idalgir S.A., Consultores Venture Capital Ltd., Ifis Limited, Inversiones Financieras del Sur S.A., Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria, IRSA, Tyrus S.A., Jiwin S.A., Efanur SA and Real Estate Strategies L.P.

(3) Based solely on Schedule 13G filed by the beneficial owner with the SEC on January 31, 2014.

(4) Based solely on Schedule 13G filed by the beneficial owner with the SEC on February 13, 2014.

(5) Includes 107,951 shares of common stock held by Budget Motels, Inc.

(6) Includes 8,125 shares of common stock which Mr. Walters has the rights to acquire through the exercise of options.

(7) Includes 5,772 shares of common stock owned by Mr. Whittemore's wife.

(8) Includes 7,188 shares of common stock which Ms. Scarpello has the right to acquire through the exercise of options.

(9) Includes 15,313 shares of common stock which the directors and executive officers have the right to acquire through the exercise of options.

Equity Compensation Plan Information

The following table provides information about the Company's common stock that may be issued upon exercise of options, warrants and rights under existing equity compensation plans as of December 31, 2013.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation (including securities plans reflected in column(a)) (c)
Equity compensation plans approved by security holders	16,938	$ 10.19	42,080
Equity compensation plans not approved by security holders	3,125	8.08	-
Total	20,063	$ 9.86	42,080

Item 13. Certain Relationships and Related Transactions, and Director Independence

Independence

The Company's Articles of Incorporation and the Nasdaq Stock Market listing standards each require that a majority of the Board of Directors are independent directors. The Articles of Incorporation defines an independent director as a person who is not an officer or employee of the Company or an affiliate of (a) any advisor to the Company under an advisory agreement, (b) any lessee of any property of the Company, (c) any subsidiary of the Company, or (d) any partnership which is an affiliate of the Company.

The Nasdaq Stock Market listing standards defines an independent director as a person other than an executive officer or employee of the Company or any other individual having a relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The following persons are not considered independent under the listing standards:

- a director who is, or at any time during the past three years was, employed by the Company or by any parent or subsidiary of the Company;
- a director who accepted or who has a family member who accepted any compensation from the Company in excess of $120,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:
  - compensation for Board or Board committee service;
  - compensation paid to a family member who is an employee (other than an executive officer) of the Company ; or
  - benefits under a tax-qualified retirement plan, or non-discretionary compensation;
- a director who is a family member of an individual who is, or at any time during the past three years was, employed by the Company as an executive officer;
- a director who is, or has a family member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or $200,000, whichever is more, other than the following:
  - payments arising solely from investments in the Company's securities; or
  - payments under non-discretionary charitable contribution matching programs;
- a director who is, or has a family member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Company serve on the compensation committee of such other entity; or
- a director who is, or has a family member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

Board of Directors

The current eight-member Board of Directors is comprised of a majority of independent directors, as defined by the Nasdaq Stock Market listing standards and the Company's Articles of Incorporation. The Board of Directors has determined that the following directors are independent under the Company's Articles of

Incorporation and the Nasdaq Stock Market listing standards: Messrs. Elsztain, Friend, Latham, Landry, Sabin, and Whittemore.

Certain Relationships and Related Transactions

Purchase Agreement and Series C Convertible Preferred Stock. On November 16, 2011, with the unanimous approval of the Board of Directors, the Company and Supertel Limited Partnership entered into a Purchase Agreement (the “Purchase Agreement”) with Real Estate Strategies L.P., a Bermuda limited partnership (“RES”), for the purchase from the Company of up to 3 million shares of Series C convertible preferred stock. RES is an affiliate of IRSA Inversiones y Representaciones Sociedad Anónima, a publicly-traded company (NYSE: “IRS”) based in Buenos Aires, Argentina (“IRSA”). The Company issued an aggregate of 3,000,000 shares of Series C convertible preferred stock to RES for $30 million in closings on February 1 and February 15, 2012.

The Series C convertible preferred stock is convertible, at the option of the holder, at any time into common stock at a conversion price of $8.00 for each share of common stock, which is equal to the rate of ten shares of common stock for each share of Series C convertible preferred stock. A holder of Series C convertible preferred stock will not have conversion rights to the extent the conversion would cause the holder and its affiliates to beneficially own more than 34% of voting stock (the “Beneficial Ownership Limitation”). “Voting stock” means capital stock having the power to vote generally for the election of directors of the Company.

The Series C convertible preferred stock will vote with the common stock as one class, subject to certain voting limitations. For any vote, the voting power of the Series C convertible preferred stock will be equal to the lesser of: (a) 0.78625 vote per share, or (b) an amount of votes per share such that the vote of all shares of Series C convertible preferred stock in the aggregate equal 34% of the combined voting power of all the Company voting stock, minus an amount equal to the number of votes represented by the other shares of voting stock beneficially owned by RES and its affiliates (the “Voting Limitation”).

As long as RES has the right to designate two or more directors to the Company Board of Directors pursuant to the Directors Designation Agreement (described below), the following requires the approval of RES and IRSA:

- the merger, consolidation, liquidation or sale of substantially all of the assets of the Company;
- the sale by the Company of common stock or securities convertible into common stock equal to 20% or more of the outstanding common stock or voting stock; or
- any Company transaction of more than $120,000 in which any of its directors or executive officers or any member of their immediate family will have a material interest, exclusive of employment compensation and interests arising solely from the ownership of the Company equity securities if all holders of that class of equity securities receive the same benefit on a pro rata basis.

Warrants. On February 1, 2012 and February 15, 2012, with the unanimous approval of the Board of Directors and in connection with the purchase of the Series C convertible preferred stock, the Company issued and RES received warrants (“Warrants”) to purchase 30,000,000 shares of the Company’s common stock. Subject to the Beneficial Ownership Limitation, the Warrants are exercisable at any time on or before January 31, 2017 at an exercise price of $9.60 per share of common stock. The exercise price may be paid in cash, or the holder may also elect to pay the exercise price by having the Company withhold a sufficient number of shares from the exercise with a market value equal to the exercise price.

Investor Rights and Conversion Agreement. The Company, with the unanimous approval of the Board of Directors, entered into an Investor Rights and Conversion Agreement (the “Investor Rights and Conversion Agreement”) dated February 1, 2012 with RES and IRSA pursuant to which the Company granted RES and its affiliates and their respective subsidiaries, among other rights, the right to purchase equity shares or securities convertible into equity shares in future Company offerings on a pro rata basis based on their combined ownership of common stock and Series C convertible preferred stock, provided that such purchase would not cause RES and its

affiliates to exceed the Beneficial Ownership Limitation. In the agreement, RES agreed to certain standstill provisions including that neither RES nor its affiliates will acquire any securities that would result in RES and its affiliates owning more than 34% of the voting stock of the Company.

Registration Rights Agreement. The Company, with the unanimous approval of the Board of Directors, entered into a registration rights agreement (the "Registration Rights Agreement") dated February 1, 2012 with RES and IRSA. The Registration Rights Agreement requires the Company to register for resale by the holders the common stock issued upon conversion of the Series C convertible preferred stock and upon exercise of the Warrants, and the Warrants and the Series C convertible preferred stock. The Registration Rights Agreement also grants RES the right to participate in certain future underwritten offerings of securities by the Company.

Directors Designation Agreement. The Company, with the unanimous approval of the Board of Directors, entered into a directors designation agreement (the "Directors Designation Agreement") dated February 1, 2012 with RES and IRSA pursuant to which the Company will appoint up to four directors designated by RES and IRSA to the Company Board of Directors and to maintain the Company Board of Directors at no more than nine members.

Loan Agreement. On January 9, 2014, the Company entered into a loan agreement with RES, whereby the Company may borrow up to $2,000,000 from time to time in revolving loans, subject to the conditions therein. In the event the Company does not complete a rights offering of common stock on or before April 15, 2014, RES has the option until July 9, 2015, the maturity date of the loan agreement, subject to any ownership limitations RES may then be subject to, to convert up to $2,000,000 of the loan into a number of shares of common stock of the Company (the "Loan Conversion") determined at the rate per share equal to the greater of (a) the average weighted price of the common stock of the Company for the five trading days preceding the day RES exercises the Loan Conversion, or (b) the greater of book or market value of the common stock at the time, and as determined, with respect to Nasdaq Marketplace Rule 5635(d).

Item 14. Principal Accountant Fees and Services

The following table presents the fees for professional audit services rendered by KPMG LLP for the audit of the Company's consolidated financial statements for the fiscal years ended December 31, 2013 and 2012, and fees billed for other services rendered by KPMG during those periods.

Year Ended December 31,	2013	2012
Audit Fees(1)	$535,000	$329,015
Audit Related Fees	0	0
Tax Fees(2)	124,229	113,650
All Other Fees	0	0
Total	$659,229	$442,665

(1) Includes fees billed for professional services rendered by KPMG for the audit of the Company's fiscal 2013 and 2012 annual financial statements, and review of the Company's quarterly financial statements during 2013 and 2012.

(2) Includes fees billed for professional services rendered by KPMG for tax compliance, tax advice, and tax planning.

The Audit Committee has determined that the provision of the non-audit services performed by KPMG during the 2013 and 2012 fiscal years is compatible with maintaining KPMG's independence from the Company.

Pursuant to the terms of the Company's Audit Committee Charter, the Audit Committee is responsible for the appointment, compensation and oversight of the work performed by the Company's independent accountants. The Audit Committee, or a designated member of the Audit Committee, must pre-approve all audit (including audit-related) and non-audit services performed by the independent accountants in order to assure that the provisions of such services does not impair the accountants' independence. The Audit Committee has delegated interim pre-

PART IV

Item 15. Exhibits and Financial Statement Schedules

Exhibits.

3.1 Second Amended and Restated Articles of Incorporation of the Company, as amended (incorporated herein by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K dated August 9, 2013).

3.2 Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated August 29, 2013).

10.1 Third Amended and Restated Agreement of Limited Partnership of Supertel Limited Partnership, as amended (incorporated herein by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).

10.2 First Amended and Restated Master Lease Agreement dated as of November 26, 2002 between Supertel Limited Partnership, E&P Financing Limited Partnership, TRS Leasing, Inc. and Solomons Beacon Inn Limited Partnership (incorporated herein by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.3 Management Agreement dated May 16, 2007 between TRS Leasing, Inc. and HLC Hotels, Inc. (incorporated herein by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.4* Amendment to Management Agreement dated July 15, 2008 between TRS Leasing, Inc. and HLC Hotels, Inc.

10.5 Amendments dated August 9, 2011 and January 21, 2010 to the Management Agreement dated May 16, 2007 between TRS Leasing, Inc. and HLC Hotels, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).

10.6 Management Agreement dated April 21, 2011 between Kinseth Hotel Corporation, TRS Leasing, Inc., TRS Subsidiary, LLC, SPPR TRS Subsidiary, LLC, and SPPR-BMI TRS Subsidiary, LLC (incorporated herein by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.7 Management Agreement dated April 21, 2011 between Strand Development Company, LLC, Strandco, Inc., TRS Leasing, Inc., TRS Subsidiary, LLC, SPPR TRS Subsidiary, LLC, and SPPR-BMI TRS Subsidiary, LLC (incorporated herein by reference to Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.8 Management Agreement dated April 21, 2011 between Hospitality Management Advisors, Inc., TRS Leasing, Inc., TRS Subsidiary, LLC, SPPR TRS Subsidiary, LLC, and SPPR-BMI TRS Subsidiary, LLC (incorporated herein by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.9* Amended and Restated Loan Agreement dated December 3, 2008 by and between the Company and Great Western Bank.

10.10 First Amendment to Amended and Restated Loan Agreement dated February 4, 2009 between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009).

10.11 Second Amendment to Amended and Restated Loan Agreement dated March 29, 2010 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).

10.12 Third Amendment to Amended and Restated Loan Agreement dated March 15, 2011 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).

10.13 Fourth Amendment to Amended and Restated Loan Agreement dated December 9, 2011 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 9, 2011).

10.14 Fifth Amendment to Amended and Restated Loan Agreement dated February 21, 2012 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 21, 2012).

10.15 Sixth Amendment to Amended and Restated Loan Agreement dated effective as of December 31, 2012 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 17, 2013).

10.16 Seventh Amendment to Amended and Restated Loan Agreement dated March 26, 2013 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 26, 2013).

10.17 Eighth Amendment to Amended and Restated Loan Agreement dated July 31, 2013 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).

10.18 Promissory Notes, Loan Agreement and form of Deed to Secure Debt, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated August 18, 2006 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.19 Unconditional Guaranty of Payment and Performance dated August 18, 2006 by the Company to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.20* Amendment No. 1 to the Promissory Note dated August 18, 2006 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation.

10.21 Promissory Note, Loan Agreement and form of Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated January 5, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.22* Amendment No. 1 to the Promissory Note dated January 5, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation.

10.23 Promissory Notes, Loan Agreement and form of Deed to Secure Debt, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated May 16, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.24 Unconditional Guaranty of Payment and Performance dated May 16, 2007 by the Company to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.25* Amendment No. 1 to the Promissory Note dated May 16, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation.

10.26 Global Amendment and Consent dated March 16, 2009 between Supertel Limited Partnership, SPPR-South Bend, LLC and General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009).

10.27 Unconditional Guaranties of Payment and Performance dated March 16, 2009, by the Company and Supertel Hospitality REIT Trust to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009).

10.28 Loan Modification Agreements dated as of September 30, 2009 by and between General Electric Capital Corporation, the Company, Supertel Limited Partnership, Supertel Hospitality REIT Trust and SPPR-South Bend, LLC, (incorporated herein by reference to Exhibits 10.1 and 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).

10.29 Covenant Waiver dated as of November 9, 2009 by General Electric Capital Corporation to the Company, Supertel Limited Partnership, Supertel Hospitality REIT Trust and SPPR-South Bend, LLC. (incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009).

10.30 Loan Modification Agreement dated as of March 25, 2010 by and between General Electric Capital Corporation, Supertel Limited Partnership, SPPR-South Bend, LLC, Supertel Hospitality REIT Trust and the Company (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).

10.31 Loan Modification Agreement dated as of March 29, 2012 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Capital Commercial of Utah, LLC and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 29, 2012).

10.32 Loan Waiver and Collateral Agreement dated as of November 14, 2012 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Capital Commercial of Utah, LLC and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.33 Loan Modification Agreement dated as of August 13, 2013 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).

10.34 Loan Modification Agreement dated as of November 13, 2013 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).

10.35* Loan Modification Agreement dated as of March 14, 2014 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC

10.36 Loan Agreement, dated as of November 2, 2012, between Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC and Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 2, 2012).

10.37 First Amendment to Loan Agreement, dated as of January 3, 2013, between Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC and Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.38 Guaranty of Recourse Obligations of Borrower, dated as of November 2, 2012, by the Company in favor of Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 2, 2012).

10.39 Cash Management Agreement, dated as of November 2, 2012, among Morgan Stanley Mortgage Capital Holdings LLC, Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC, Hospitality Management Advisors, Inc., Kinseth Hotel Corporation and Strandco, Inc. (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated November 2, 2012).

10.40 First Amendment to Cash Management Agreement, dated as of November 5, 2012, among Morgan Stanley Mortgage Capital Holdings LLC, Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC, Hospitality Management Advisors, Inc., Kinseth Hotel Corporation and Strandco, Inc. (incorporated herein by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

10.41 Standby Equity Distribution Agreement dated as of March 26, 2010 between YA Global Master SPV Ltd. and the Company (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 26, 2010).

10.42 Purchase Agreement, dated November 16, 2011, by and among the Company, Supertel Limited Partnership and Real Estate Strategies L.P. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A dated November 16, 2011).

10.43 Warrants issued to Real Estate Strategies L.P. dated February 1, 2012 and February 15, 2012 (incorporated herein by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.44 Investor Rights and Conversion Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated January 30, 2012).

10.45 Registration Rights Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated January 30, 2012).

10.46 Directors Designation Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated January 30, 2012).

10.47 Agreement, dated August 9, 2013, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anonima (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 9, 2013)

10.48 The Company's 2006 Stock Plan (incorporated herein by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.49 Amendment to the Company's 2006 Stock Plan dated May 28, 2009 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 28, 2009).

10.50 Amendment to the Company's 2006 Stock Plan dated May 22, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 22, 2012).

10.51 Form of Stock Option Agreement (incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

10.52 Employment Agreement of Kelly Walters, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 1, 2012).

10.53 Employment Agreement of Corrine L. Scarpello, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 1, 2012).

10.54 Employment Agreement of David L. Walter, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated February 1, 2012).

10.55 Employment Agreement of Steven C. Gilbert, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated February 1, 2012).

10.56 Jeffrey W. Dougan Employment Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 9, 2013).

10.57 Jeffrey W. Dougan Restricted Stock Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated July 9, 2013).

10.58 Jeffrey W. Dougan Stock Option Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated July 9, 2013).

10.59 Director and Named Executive Officers Compensation is incorporated herein by reference to the sections entitled "Compensation Discussion and Analysis", "Compensation Committee Report", "Summary Compensation Table", "Grants of Plan-Based Awards for Fiscal Year 2013", "Outstanding Equity Awards at Fiscal Year-End", and "Director Compensation" in the Company's Proxy Statement for the Annual Meeting of Stockholders on May 20, 2014.

21.0* Subsidiaries.

23.1* Consent of KPMG LLP.

31.1** Section 302 Certification of Chief Executive Officer.

31.2** Section 302 Certification of Chief Financial Officer.

32.1** Section 906 Certifications.

101.1* The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.

Pursuant to Item 601 (b)(4) of Regulation S-K, certain instruments with respect to the Company's long-term debt are not filed with this Form 10-K. The Company will furnish a copy of any such long-term debt agreement to the Securities and Exchange Commission upon request.

Management contracts and compensatory plans are set forth as Exhibits 10.48 through 10.59.

* Previously filed.
** Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to the Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

SUPERTEL HOSPITALITY, INC.

April 1, 2014

By: /s/ Kelly A. Walters
Kelly A. Walters
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on the date indicated above.

By: /s/ Kelly A. Walters
Kelly A. Walters
President and Chief Executive Officer
(principal executive officer and Director)

By: /s/ John M. Sabin
John M. Sabin
Director

By: /s/ Corrine L. Scarpello
Corrine L. Scarpello
Chief Financial Officer and Corporate Secretary
(principal financial and accounting officer and Director)

By: /s/ George R. Whittemore
George R. Whittemore
Director

By: /s/ James H. Friend
James H. Friend
Chairman of the Board

By: /s/ Daniel R. Elsztain
Daniel R. Elsztain
Director

By: /s/ Donald J. Landry
Donald J. Landry
Director

By: /s/ William C. Latham
William C. Latham
Director

BOARD OF DIRECTORS

JAMES H. FRIEND [1 4]
Chairman of the Board

DANIEL R. ELSZTAIN [3]
Director

DONALD J. LANDRY [3*4]
Director

WILLIAM C. LATHAM [4*]
Director

JOHN M. SABIN [1* 2 3]
Director

CORRINE L. "CONNIE" SCARPELLO
Director, Senior Vice President, Chief Financial Officer

GEORGE R. WHITTEMORE [1 2*3]
Director

KELLY A. WALTERS [3]
Director, President, Chief Executive Officer

1 Audit Committee
2 Compensation Committee
3 Investment Committee
4 Nominating Committee
* Denotes Chairman

OFFICERS

KELLY A. WALTERS
Director, President, Chief Executive Officer

CORRINE L. "CONNIE" SCARPELLO
Director, Senior Vice President, Chief Financial Officer

JEFFREY W. DOUGAN
Senior Vice President, Chief Operating Officer

PATRICK E. BEANS
Senior Vice President, Treasurer

PAUL HEYBROCK
Vice President, Controller

MARK LARIMORE
Assistant Vice President, Capital Expenditures

PATRICIA MORLAND
Assistant Vice President, Human Resources

VICKI STAAB
Assistant Vice President, Capital Expenditures

ANNUAL MEETING

The annual meeting of shareholders will be held on Thursday, May 29, 2014 at 10:00 a.m. central time at the DoubleTree by Hilton Omaha Downtown, 1616 Dodge Street, Omaha, NE 68102.

TRANSFER AGENT

American Stock Transfer and Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
www.amstock.com
1-800-937-5449

STOCK EXCHANGE LISTING

Supertel Hospitality trades on the NASDAQ Global Market System under the symbols SPPR, SPPRO, and SPPRP.

FORM 10-K AND 10-K/A

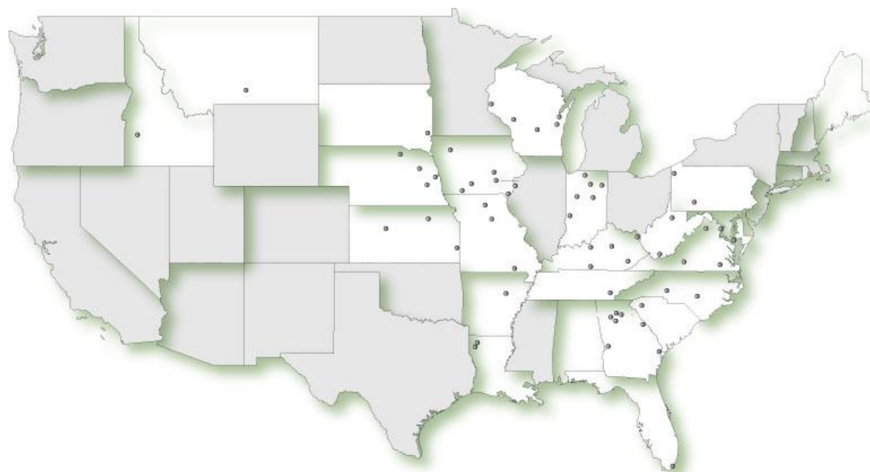
Additional copies of the company's 2013 Form 10-K and Form 10-K/A Annual Report are available on the company's website or in print by contacting the Investor Relations department at the company's corporate headquarters in Norfolk, NE.

CORPORATE HEADQUARTERS

1800 West Pasewalk Ave, Ste 200
Norfolk, NE 68701
402-371-2520

Branch Office
11422 Miracle Hills Drive, Ste 501
Omaha, NE 68154

HOTEL LOCATIONS



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