

Extended Stay America, Inc.  
Form 10-Q  
October 27, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2015**

**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: 001-36190**

**Commission File Number: 001-36191**

**Extended Stay America, Inc.**  
**(Exact name of registrant as specified in its charter)**

**ESH Hospitality, Inc.**  
**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**46-3140312**  
**(I.R.S. Employer**

**Identification No.)**

**11525 N. Community House Road, Suite 100**

**Charlotte, North Carolina 28277**  
**(Address of principal executive offices, zip code)**

**(980) 345-1600**  
**(Registrant's telephone number, including area code)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**27-3559821**  
**(I.R.S. Employer**

**Identification No.)**

**11525 N. Community House Road, Suite 100**

**Charlotte, North Carolina 28277**  
**(Address of principal executive offices, zip code)**

**(980) 345-1600**  
**(Registrant's telephone number, including area code)**

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.

Extended Stay America, Inc.  
 ESH Hospitality, Inc.

Yes  No   
 Yes  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).

Extended Stay America, Inc.  
 ESH Hospitality, Inc.

Yes  No   
 Yes  No

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Extended Stay America, Inc. Large accelerated filer  Accelerated filer   
 Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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ESH Hospitality, Inc.      Large accelerated filer       Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company)      Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Extended Stay America, Inc.      Yes       No   
ESH Hospitality, Inc.      Yes       No   
Indicate by check mark whether the registrants have filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.      Yes       No

204,593,912 shares of common stock, par value \$0.01 per share, of Extended Stay America, Inc., which are attached to and traded together with 204,593,912 shares of Class B common stock, par value \$0.01 per share, of ESH Hospitality, Inc., and 250,493,583 shares of Class A common stock, par value \$0.01 per share, of ESH Hospitality, Inc., were all outstanding as of October 22, 2015.

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**EXTENDED STAY AMERICA, INC.**

**ESH HOSPITALITY, INC.**

**QUARTERLY REPORT ON FORM 10-Q**

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**ABOUT THIS COMBINED QUARTERLY REPORT**

This combined quarterly report on Form 10-Q is filed by Extended Stay America, Inc., a Delaware corporation (the Corporation), and its controlled subsidiary, ESH Hospitality, Inc., a Delaware corporation (ESH REIT). Both the Corporation and ESH REIT have securities that have been registered under the Securities Act of 1933, as amended (the Securities Act), which are publicly traded and listed on the New York Stock Exchange (the NYSE) as Paired Shares, as defined herein. As further discussed below, unless otherwise indicated or the context requires, the terms the Company, Extended Stay, Extended Stay America, we, our and us refer to the Corporation, ESH REIT and the subsidiaries considered as a single, consolidated enterprise.

We believe combining the quarterly reports on Form 10-Q of the Corporation and ESH REIT into this single report results in the following benefits:

Enhances investors' understanding of the Corporation and ESH REIT by enabling investors, whose ownership of Paired Shares gives them an ownership interest in our hotel properties through ESH REIT and in the operation of the hotels and other aspects of our business through the Corporation, to view the business as a whole;

Eliminates duplicative and potentially confusing disclosure and provides a more streamlined presentation, since a substantial amount of our disclosure applies to the Corporation and ESH REIT; and

Creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

This combined quarterly report on Form 10-Q presents the following sections or portions of sections for each of the Company, on a consolidated basis, and ESH REIT, where applicable:

Part I Item 1 Unaudited Financial Statements.

Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Part I Item 3 Quantitative and Qualitative Disclosures About Market Risk.

As required by Financial Accounting Standards Board (FASB) ASC 810, *Consolidations*, due to the Corporation's controlling financial interest in ESH REIT, the Corporation consolidates ESH REIT's financial position, results of operations, comprehensive income and cash flows with those of the Corporation. The Corporation's stand-alone financial condition and related information is discussed herein where applicable. In addition, with respect to other financial and non-financial disclosure items required by Form 10-Q, any material differences between the Corporation and ESH REIT are discussed separately herein.

This report also includes separate Part I Item 4 Controls and Procedures sections and separate Exhibit 31 and 32 certifications for each of Extended Stay America, Inc. and ESH Hospitality, Inc. in order to establish that the Chief

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Executive Officer and the Chief Financial Officer of Extended Stay America, Inc. and the Chief Executive Officer and the Chief Financial Officer of ESH Hospitality, Inc. have made the requisite certifications and that Extended Stay America, Inc. and ESH Hospitality, Inc. are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and 18 U.S.C. §1350.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This combined quarterly report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical facts included in this combined quarterly report on Form 10-Q may be forward-looking.

Statements herein regarding our ongoing hotel reinvestment program, our ability to meet our debt service obligations, our future capital expenditures, our distribution policies, anticipated benefits or use of proceeds from any dispositions, our plans, objectives, goals, beliefs, business strategies, future events, business conditions, results of operations, financial position and our business outlook, business trends and other information referred to under Management's Discussion and Analysis of Financial Condition and Results of Operations include forward-looking statements. When used in this combined quarterly report on Form 10-Q, the words believe, expect, anticipate, intend, estimate, forward to and variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not historical facts, and are based upon our current expectations, beliefs, estimates and projections, and various assumptions, many of which, by their nature, are inherently uncertain and beyond our control. Our expectations, beliefs, estimates and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management's expectations, beliefs, estimates and projections will result or be achieved and actual results may vary materially from what is expressed in or indicated by the forward-looking statements.

There are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this combined quarterly report on Form 10-Q. Such risks, uncertainties and other important factors include, but are not limited to:

changes in U.S. general and local economic activity and the impact of these changes on consumer demand for lodging and related services in general and for extended stay lodging in particular;

levels of spending in the business, travel and leisure industries, as well as consumer confidence;

increased competition and the over-building of hotels in our markets;

fluctuations in the supply and demand for hotel rooms;

changes in the tastes and preferences of our customers;

the seasonal and cyclical nature of the real estate and lodging businesses;

interruptions in transportation systems, which may result in reduced business or leisure travel;



events beyond our control, such as war, terrorist attacks, travel-related health concerns, natural disasters, and severe weather;

our ability to implement our business strategies profitably;

the availability of capital for reinvestments, including future renovations and acquisitions;

our ability to integrate and successfully operate any hotel properties acquired, developed or built in the future and the risks associated with these hotel properties;

the high fixed cost of hotel operations;

our ability to retain the services of certain members of our management;

incidents or adverse publicity concerning our hotels or other extended stay hotels;

decreases in brand loyalty due to increasing use of internet reservation channels;

changes in distribution arrangements, such as those with internet travel intermediaries;

our ability to keep pace with improvements in technology utilized for reservations systems and other operating systems, including technology used in the delivery of guest services;

the occurrence of cybersecurity incidents;

our ability to protect our trademarks and other intellectual property;

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the ability of ESH REIT to qualify, and remain qualified, as a real estate investment trust ( REIT ) under the Internal Revenue Code of 1986, as amended (the Code );

actual or constructive ownership (including deemed ownership by virtue of certain attribution provisions under the Code) of Paired Shares by investors who we do not control, which may cause ESH REIT to fail to meet the REIT income tests;

changes in federal, state or local tax law, including legislative, administrative, regulatory or other actions affecting REITs or changes in interpretations thereof or increased taxes resulting from tax audits;

our relationships with our associates and changes in labor laws;

the cost of compliance with and liabilities under environmental, health and safety laws;

changes in real estate and zoning laws and increases in real property tax rates;

changes in local market or neighborhood conditions which may diminish the value of real property;

increases in interest rates and operating costs;

our substantial indebtedness and debt service obligations, including material increases in our cost of borrowing, and our ability to refinance debt when it matures;

our ability to access credit or capital markets;

inadequate insurance coverage;

adverse litigation judgments or settlements; and

our status as a controlled company.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements, including factors disclosed in our combined annual report on Form 10-K filed with the U.S. Securities and Exchange Commission ( SEC ) on February 26, 2015 and in other filings with the SEC. You should evaluate all forward-looking statements made in this combined quarterly report on Form 10-Q in the context of these risks and uncertainties.

We caution you that the risks, uncertainties and other factors referenced above may not contain all of the risks, uncertainties and other factors that are important to you. In addition, we cannot assure you that we will realize the results, benefits or developments that we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our business in the way expected. Estimates and forward-looking statements speak only as of the date they were made and we undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Unaudited Financial Statements  
EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014****(In thousands, except share and per share data)****(Unaudited)**

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
PROPERTY AND EQUIPMENT - Net of accumulated depreciation of \$738,298 and \$622,514	\$ 3,912,151	\$ 4,087,448
RESTRICTED CASH	193,141	73,382
CASH AND CASH EQUIVALENTS	107,506	121,324
INTANGIBLE ASSETS - Net of accumulated amortization of \$6,844 and \$5,814	30,059	31,656
GOODWILL	53,531	55,633
DEFERRED FINANCING COSTS - Net of accumulated amortization of \$23,164 and \$24,107	38,839	37,071
ACCOUNTS RECEIVABLE - Net of allowance for doubtful accounts of \$3,704 and \$2,762	26,289	26,552
DEFERRED TAX ASSETS	4,618	
OTHER ASSETS	48,668	48,054
ASSETS HELD FOR SALE	146,978	
<b>TOTAL ASSETS</b>	<b>\$ 4,561,780</b>	<b>\$ 4,481,120</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Mortgage loan payable	\$ 1,931,157	\$ 2,518,049
Term loan facility payable - Net of unaccreted discount of \$1,399 and \$1,680	365,064	373,320
Senior notes payable	500,000	
Mandatorily redeemable preferred stock - \$0.01 par value, \$1,000 redemption value, 8.0%, 350,000,000 shares authorized, 21,202 shares issued and	21,202	21,202

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outstanding as of September 30, 2015 and December 31, 2014

Accounts payable and accrued liabilities	212,884	172,440
Deferred tax liabilities	1,607	6,792
Liabilities related to assets held for sale	89,175	
Total liabilities	3,121,089	3,091,803

COMMITMENTS AND CONTINGENCIES (Note 10)

EQUITY:

Common stock - \$0.01 par value, 3,500,000,000 shares authorized, 204,593,912 and 204,517,265 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	2,049	2,048
Additional paid in capital	782,944	779,447
Retained earnings	122,804	13,833
Accumulated other comprehensive loss	(8,771)	(5,810)
Total Extended Stay America, Inc. shareholders' equity	899,026	789,518
Noncontrolling interests	541,665	599,799
Total equity	1,440,691	1,389,317
TOTAL LIABILITIES AND EQUITY	\$ 4,561,780	\$ 4,481,120

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(In thousands, except per share data)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>REVENUES:</b>				
Room revenues	\$ 355,445	\$ 333,970	\$ 974,127	\$ 917,286
Other hotel revenues	5,071	4,583	14,291	13,497
Total revenues	360,516	338,553	988,418	930,783
<b>OPERATING EXPENSES:</b>				
Hotel operating expenses	159,049	159,125	450,543	448,253
General and administrative expenses	24,373	19,579	73,909	64,227
Depreciation and amortization	52,268	47,124	151,980	139,401
Impairment of long-lived assets	9,011		9,011	
Gain on sale of hotel properties		(864)		(864)
Total operating expenses	244,701	224,964	685,443	651,017
OTHER INCOME	3	1	44	272
<b>INCOME FROM OPERATIONS</b>	<b>115,818</b>	<b>113,590</b>	<b>303,019</b>	<b>280,038</b>
OTHER NON-OPERATING EXPENSE	1,143	1,058	2,035	2,837
INTEREST EXPENSE, NET	35,157	33,377	101,975	116,464
INCOME BEFORE INCOME TAX EXPENSE	79,518	79,155	199,009	160,737
INCOME TAX EXPENSE	21,293	18,970	48,119	38,187
NET INCOME	58,225	60,185	150,890	122,550
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(20,569)	(16,310)	(33,703)	(24,649)
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 37,656	\$ 43,875	\$ 117,187	\$ 97,901

<b>NET INCOME PER COMMON SHARE:</b>				
Basic	\$ 0.18	\$ 0.22	\$ 0.57	\$ 0.48
Diluted	\$ 0.18	\$ 0.21	\$ 0.57	\$ 0.48
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>				
Basic	204,281	203,593	204,171	203,449
Diluted	204,685	204,540	204,538	204,492
<b>CASH DISTRIBUTIONS PER COMMON SHARE</b>				
	\$ 0.02	\$	\$ 0.04	\$

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(In thousands)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
NET INCOME	\$ 58,225	\$ 60,185	\$ 150,890	\$ 122,550
FOREIGN CURRENCY TRANSLATION LOSS, NET OF TAX	(4,172)	(2,462)	(5,786)	(574)
COMPREHENSIVE INCOME	54,053	57,723	145,104	121,976
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(18,968)	(15,391)	(30,878)	(24,466)
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 35,085	\$ 42,332	\$ 114,226	\$ 97,510

See accompanying notes to unaudited condensed consolidated financial statements.



**Table of Contents****EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(In thousands)****(Unaudited)**

	<b>Common Shares</b>	<b>Stock Amount</b>	<b>Additional Paid in Capital</b>	<b>Retained Earnings (Accumulated Deficit)</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total Shareholder Equity</b>	<b>Noncontrolling Interests</b>	<b>Total Equity</b>
BALANCE - January 1, 2014	204,788	\$ 2,048	\$ 772,359	\$ (25,763)	\$ (4,068)	\$ 744,576	\$ 596,632	\$ 1,341,208
Net income				97,901		97,901	24,649	122,550
Foreign currency translation loss					(391)	(391)	(183)	(574)
ESH REIT common distributions							(77,946)	(77,946)
ESH REIT preferred distributions							(8)	(8)
Equity-based compensation	(161)		5,826			5,826	1,347	7,173
BALANCE - September 30, 2014	204,627	\$ 2,048	\$ 778,185	\$ 72,138	\$ (4,459)	\$ 847,912	\$ 544,491	\$ 1,392,403

	<b>Common Shares</b>	<b>Stock Amount</b>	<b>Additional Paid in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total Shareholder Equity</b>	<b>Noncontrolling Interests</b>	<b>Total Equity</b>
BALANCE - January 1, 2015	204,517	\$ 2,048	\$ 779,447	\$ 13,833	\$ (5,810)	\$ 789,518	\$ 599,799	\$ 1,389,317
Net income				117,187		117,187	33,703	150,890
					(2,961)	(2,961)	(2,825)	(5,786)

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Foreign currency translation loss, net of tax								
Common distributions			(8,216)		(8,216)			(8,216)
ESH REIT common distributions						(92,337)		(92,337)
ESH REIT preferred distributions						(12)		(12)
Equity-based compensation	77	1	3,497		3,498	3,337		6,835
BALANCE - September 30, 2015	204,594	\$ 2,049	\$ 782,944	\$ 122,804	\$ (8,771)	\$ 899,026	\$ 541,665	\$ 1,440,691

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(In thousands)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 150,890	\$ 122,550
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	150,950	138,371
Amortization of intangible assets	1,030	1,030
Foreign currency transaction loss	2,275	2,837
Amortization and write-off of deferred financing costs and accretion of debt discount	9,535	16,291
Amortization of above-market ground leases	(102)	(101)
Loss on disposal of property and equipment	3,326	2,711
Impairment of long-lived assets	9,011	
Gain on sale of hotel properties		(864)
Equity-based compensation	7,940	7,173
Deferred income tax (benefit) expense	(8,173)	10,713
Changes in assets and liabilities:		
Accounts receivable, net	181	(12,742)
Other assets	(5,108)	(2,037)
Accounts payable and accrued liabilities	43,476	17,395
Net cash provided by operating activities	365,231	303,327
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(141,158)	(125,892)
Proceeds from asset dispositions, net	852	3,223
Increase in restricted cash and insurance collateral	(120,058)	(131,238)
Proceeds from insurance recoveries	3,711	7,272
Net cash used in investing activities	(256,653)	(246,635)
<b>FINANCING ACTIVITIES:</b>		

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Principal payments on mortgage loan	(500,777)	(1,794)
Proceeds from term loan facility, net of discount		373,125
Principal payments on term loan facility	(8,537)	
Proceeds from senior notes	500,000	
Proceeds from revolving credit facilities	65,000	210,000
Payments on revolving credit facilities	(65,000)	(230,000)
Principal payments on mezzanine loans		(365,000)
Payments of deferred financing costs	(11,476)	(5,222)
Tax withholdings related to restricted stock unit settlements	(1,105)	
Common distributions	(8,185)	
ESH REIT common distributions	(92,244)	(77,754)
ESH REIT preferred distributions	(16)	(8)
Net cash used in financing activities	(122,340)	(96,653)
<b>CHANGES IN CASH AND CASH EQUIVALENTS DUE TO CHANGES IN FOREIGN CURRENCY EXCHANGE RATES</b>	(56)	(65)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(13,818)	(40,026)
<b>CASH AND CASH EQUIVALENTS - Beginning of period</b>	121,324	60,457
<b>CASH AND CASH EQUIVALENTS - End of period</b>	\$ 107,506	\$ 20,431
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash payments for interest, excluding prepayment and other penalties	\$ 75,544	\$ 88,045
Cash payments for income taxes - Net of refunds of \$92 and \$219	\$ 56,751	\$ 28,478
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Capital expenditures included in accounts payable and accrued liabilities	\$ 16,093	\$ 14,064
Common distributions included in accounts payable and accrued liabilities	\$ 31	\$
ESH REIT common distributions included in accounts payable and accrued liabilities	\$ 458	\$ 200

See accompanying notes to unaudited condensed consolidated financial statements.

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**EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014, AND FOR THE THREE AND NINE MONTHS ENDED**

**SEPTEMBER 30, 2015 AND 2014**

**(Unaudited)**

**1. BUSINESS, ORGANIZATION AND BASIS OF CONSOLIDATION**

Extended Stay America, Inc. (the Corporation ) was incorporated in the state of Delaware on July 8, 2013. ESH Hospitality, Inc. ( ESH REIT ) was formed as a limited liability company in the state of Delaware on September 16, 2010 and was converted to a corporation on November 5, 2013. On November 18, 2013, the Corporation and ESH REIT completed an initial public offering of 32,487,500 Paired Shares for cash consideration of \$20.00 per Paired Share, each Paired Share consisting of one share of common stock, par value \$0.01 per share, of the Corporation, that is attached to and trades as a single unit with one share of Class B common stock, par value \$0.01 per share, of ESH REIT. The Corporation owns, and is expected to continue to own, all of the issued and outstanding Class A common stock of ESH REIT, which represents approximately 55% of the outstanding common stock of ESH REIT. Due to its controlling interest in ESH REIT, the Corporation consolidates the financial position, results of operations, comprehensive income and cash flows of ESH REIT. The term, the Company, as used herein refers to the Corporation and ESH REIT and their subsidiaries presented on a consolidated basis.

On June 5, 2015, the Corporation and ESH REIT filed an automatic shelf registration statement with the U.S. Securities and Exchange Commission ( SEC ) pursuant to which, from time to time, (i) the Corporation and ESH REIT may offer and sell an unlimited number of Paired Shares and (ii) certain selling stockholders (the Selling Shareholders ) may offer and sell up to 142,960,388 Paired Shares. The Selling Shareholders consist solely of entities affiliated with the Sponsors (as defined below) and do not include officers or directors of the Corporation or ESH REIT. As of September 30, 2015, the Corporation, ESH REIT and the Selling Shareholders have not sold any securities registered pursuant to the automatic shelf registration statement. The Company incurred professional fees in connection with the registration of the Paired Shares of approximately \$0.7 million during the nine months ended September 30, 2015.

As of September 30, 2015 and December 31, 2014, the Company owned and operated 679 hotel properties in 44 U.S. states, consisting of 75,500 rooms, and three hotels in Canada consisting of 500 rooms. The hotels are operated by subsidiaries of the Corporation (the Operating Lessees ) pursuant to leases between ESH REIT and the Operating Lessees. The hotels are managed by ESA Management LLC ( ESA Management ), a subsidiary of the Corporation, pursuant to management agreements between ESA Management and the Operating Lessees and a services agreement between ESA Management and ESH REIT. The majority of hotels are operated under the core brand Extended Stay America. Three Canadian hotels operate under the brand Extended Stay Canada and 47 hotels operate under the brand Crossland Economy Studios. The brands are owned by ESH Hospitality Strategies LLC ( ESH Strategies ), also a subsidiary of the Corporation, which licenses the brands to the Operating Lessees.

On September 18, 2015, subsidiaries of the Company entered into a purchase and sale agreement to sell a portfolio of 53 hotel properties, 47 of which operate under the Crossland Economy Studios brand and six of which operate under the Extended Stay America brand, and certain intellectual property of Crossland Economy Studios for \$285.0 million, subject to customary adjustments. The Company expects the transaction to close in the fourth quarter of 2015. Upon closing, the Company will no longer own, operate or manage these hotel properties, nor will it own certain intellectual property of Crossland Economy Studios. As of September 30, 2015, the Company classified these assets and their related liabilities as assets held for sale and liabilities related to assets held for sale, respectively, in the accompanying unaudited condensed consolidated balance sheet (see Note 3).

As of September 30, 2015 and December 31, 2014, the public owned approximately 29.6% and 28.9%, respectively, of the outstanding Paired Shares, while Centerbridge Partners, L.P., Paulson & Co. Inc. and the Blackstone Group, L.P. and their affiliates (collectively, the Sponsors ) and senior management, including certain directors, owned approximately 70.4% and 71.1%, respectively, of the outstanding Paired Shares.

### **Basis of Consolidation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ( U.S. GAAP ). References to the Company, its financial position, results of operations, comprehensive income, changes in equity and cash flows refer to the Corporation and its consolidated subsidiaries, including ESH REIT.

For the three and nine months ended September 30, 2015 and 2014, third party equity interests in ESH REIT consist of all of the shares of Class B common stock of ESH REIT, which represent approximately 45% of ESH REIT 's total common equity, and 125 shares of preferred stock of ESH REIT. These interests, which are not owned by the Corporation, are presented as noncontrolling interests.

All intercompany accounts and transactions have been eliminated.

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**Table of Contents****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Interim Presentation** Certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. GAAP have been condensed or omitted in the accompanying unaudited condensed consolidated financial statements. The Company believes the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2014 included in the combined annual report on Form 10-K filed with the SEC on February 26, 2015.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal and recurring items) necessary to present fairly the Company's financial position as of September 30, 2015, the results of the Company's operations and comprehensive income for the three and nine months ended September 30, 2015 and 2014 and changes in equity and cash flows for the nine months ended September 30, 2015 and 2014. Interim results are not necessarily indicative of full year performance because of the impact of seasonal and short-term variations, including the impact of our hotel reinvestment program.

**Use of Estimates** The preparation of the accompanying unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management used significant estimates to estimate the useful lives of tangible assets as well as in the assessment of tangible and intangible assets, including goodwill, for impairment, and estimated liabilities for insurance reserves. Actual results could differ from those estimates.

**Property and Equipment** Property and equipment additions are recorded at cost. Major improvements that extend the life or utility of property or equipment are capitalized and depreciated over a period equal to the shorter of the estimated useful life of the improvement or the remaining estimated useful life of the asset. Ordinary repairs and maintenance are charged to expense as incurred. Depreciation and amortization are recorded on a straight-line basis over estimated useful lives which range from 1 year to 49 years.

Management assesses whether there has been impairment of the value of property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of property and equipment is measured by a comparison of the carrying amount of a hotel property to the estimated future undiscounted cash flows expected to be generated by each hotel property. Impairment is recognized when estimated future undiscounted cash flows, including proceeds from disposition, are less than the carrying value of the hotel property.

To the extent that a hotel property is impaired, the excess carrying amount of the hotel property over its estimated fair value is charged to operating earnings. Fair value is determined based upon the discounted cash flows of the hotel property, quoted market prices or independent appraisals, as considered necessary. The Company recognized an impairment charge related to property and equipment of approximately \$9.0 million for the three and nine months ended September 30, 2015, and no impairment charge for the three and nine months ended September 30, 2014 (see Note 5). The estimation of future undiscounted cash flows is inherently uncertain and relies upon assumptions regarding current and future economic and market conditions. If such conditions change, then an impairment charge to reduce the carrying value of each hotel property could occur in a future period in which conditions change.

**Assets Held For Sale** The Company classifies assets as held for sale when management commits to a formal plan to sell the assets, actively seeks a buyer for the assets and the consummation of a sale is considered probable and is

expected within one year. The Company considers the consummation of a sale probable once a purchase and sale agreement has been executed, the buyer has a significant non-refundable deposit at risk and no significant financing contingencies exist. Upon designating an asset as held for sale, the Company stops recognizing depreciation expense and records the asset at the lower of its carrying value, which includes allocable goodwill, or its estimated fair value, less estimated costs to sell. Any such adjustment in the carrying value is recognized as an impairment charge. As of September 30, 2015, the Company classified certain assets and their related liabilities as assets held for sale and liabilities related to assets held for sale, respectively, in the accompanying unaudited condensed consolidated balance sheet (see Note 3).

**Discontinued Operations** Effective January 1, 2014, the Company early adopted Accounting Standards Update No. 2014-08 issued by the Financial Accounting Standards Board ( FASB ) which addresses the classification and reporting of discontinued operations. This update defines discontinued operations as a component of an entity that represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. This guidance generally results in reporting discontinued operations less frequently than under the previous accounting standard. For example, the sale of the two hotels in July 2014 was not reported as discontinued operations as it did not represent a strategic shift that had a major effect on the Company s operations or financial results, nor is the anticipated sale of the portfolio of 53 hotel properties and certain intellectual property of Crossland Economy Studios, for which the assets and related liabilities are classified as held for sale as of September 30, 2015, reported as discontinued operations as it does not represent a strategic shift that will have a major effect on the Company s operations or financial results after it closes (see Note 3).



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**Segments** The Company's hotel operations represent a single operating segment based on the way the Company manages its business. The Company's hotels provide similar services, use similar processes to sell those services and sell those services to similar classes of customers. The amounts of long-lived assets and revenues outside the U.S. are not significant for any period presented.

**Recently Issued Accounting Standards**

*Imputation of Interest Simplifying the Presentation of Debt Issuance Costs* In April 2015, the FASB issued an accounting standards update which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts. This update does not affect the current guidance on the recognition and measurement of debt issuance costs or the amortization of debt issuance costs as interest expense. This updated standard will be effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted, and shall be applied retrospectively. The Company expects to adopt this accounting standards update in the fourth quarter of 2015. As of September 30, 2015, the Company has approximately \$35.8 million of debt issuance costs, net of accumulated amortization, excluding amounts related to assets held for sale (see Note 3), the ESH REIT Revolving Credit Facility and the Corporation Revolving Credit Facility (each as defined in Note 7), on its accompanying unaudited condensed consolidated balance sheet, which after adoption of this updated standard will be presented as a reduction to the amounts of their related debt liabilities.

*Intangibles Goodwill and Other Internal-Use Software* In April 2015, the FASB issued an accounting standards update which clarifies the accounting for fees paid by a customer in a cloud computing arrangement. This update provides guidance to customers regarding whether a cloud computing arrangement includes the sale or license of software or, alternatively, the sale of a service. This updated standard will be effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted, and may be applied either prospectively or retrospectively. The Company does not expect the adoption of this updated standard to have a material effect on its consolidated financial statements.

*Consolidation Amendments to the Consolidation Analysis* In February 2015, the FASB issued an accounting standards update which amends the consolidation requirements under U.S. GAAP, changing the analysis performed by a company to determine whether it has a variable interest in an entity and when to consolidate such entities. This updated standard will be effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted, and may be applied using one of two retrospective application methods. The Company does not expect the adoption of this updated standard to have a material effect on its consolidated financial statements.

*Contractual Revenue* In May 2014, the FASB issued an accounting standards update which amends existing revenue recognition accounting standards. This update is based on the principle that revenue is recognized when an entity transfers goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This updated standard also requires more detailed disclosure to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. The guidance permits the use of either a retrospective or cumulative effect transition method. This updated accounting standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual periods beginning after December 15, 2016. The Company does not expect the adoption of this updated standard to have a material effect on its consolidated financial statements.



**Table of Contents****3. ASSETS HELD FOR SALE**

On September 18, 2015, subsidiaries of the Company entered into a purchase and sale agreement to sell a portfolio of 53 hotel properties, 47 of which operate under the Crossland Economy Studios brand and six of which operate under the Extended Stay America brand, and certain intellectual property of Crossland Economy Studios for \$285.0 million, subject to customary adjustments. At that time the buyer made a non-refundable deposit of \$15.0 million to a third party escrow agent and on October 16, 2015, the buyer made an additional non-refundable deposit of \$5.0 million. As of September 30, 2015, the Company classified these assets and their related liabilities as assets held for sale and liabilities related to assets held for sale, respectively, in the accompanying unaudited condensed consolidated balance sheet. The Company recorded no impairment charge with respect to this anticipated transaction and expects the transaction to close in the fourth quarter of 2015. Upon closing, the Company will no longer own, operate or manage these hotel properties, nor will the Company own certain intellectual property of Crossland Economy Studios. As discussed in Note 2, the results of operations of the assets under contract to be sold are not reported as discontinued operations.

Assets held for sale and liabilities related to assets held for sale related to this anticipated transaction consist of the following as of September 30, 2015 (in thousands):

Property and equipment:	
Land and site improvements	\$ 64,203
Building and improvements	92,137
Furniture, fixtures and equipment	20,749
Less: accumulated depreciation	(33,234)
Property and equipment - net	143,855
Intangible assets	567
Goodwill	2,102
Deferred financing costs - net	454
Assets held for sale	\$ 146,978
Mortgage loan payable <sup>(1)</sup>	\$ 86,115
Accounts payable and accrued liabilities	3,060
Liabilities related to assets held for sale	\$ 89,175

(1) As of September 30, 2015, approximately \$86.1 million of ESH REIT's 2012 Mortgage Loan (as defined in Note 7) relates to the assets subject to this purchase and sale agreement and is required to be repaid upon closing. Approximately \$29.3 million, which has an interest rate of 2.9922% as of September 30, 2015, is scheduled to mature on December 1, 2015. If the sale does not close prior to December 1, 2015, ESH REIT has an option to extend the maturity date for two consecutive one-year periods, subject to certain conditions. The remaining approximately \$56.8 million, which has a fixed interest rate of 3.4047%, is scheduled to mature on December 1, 2017.



**Table of Contents****4. NET INCOME PER SHARE**

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of shares of the Corporation's unrestricted common stock outstanding. Diluted net income per share is computed by dividing net income available to common shareholders, as adjusted for potentially dilutive securities, by the weighted average number of shares of the Corporation's unrestricted common stock outstanding plus other potentially dilutive securities. Dilutive securities include certain equity-based awards issued under long-term incentive plans (see Note 11).

The calculations of basic and diluted net income per share, including a reconciliation of the numerators and denominators, are as follows:

<b>(in thousands, except per share data)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<i>Numerator:</i>				
Net income available to common shareholders - basic	\$ 37,656	\$ 43,875	\$ 117,187	\$ 97,901
Less amounts available to noncontrolling interests assuming conversion	(22)	(42)	(35)	(76)
Net income available to common shareholders - diluted	\$ 37,634	\$ 43,833	\$ 117,152	\$ 97,825
<i>Denominator:</i>				
Weighted average number of common shares outstanding - basic	204,281	203,593	204,171	203,449
Dilutive securities	404	947	367	1,043
Weighted average number of common shares outstanding - diluted	204,685	204,540	204,538	204,492
Net income per common share - basic	\$ 0.18	\$ 0.22	\$ 0.57	\$ 0.48
Net income per share common - diluted	\$ 0.18	\$ 0.21	\$ 0.57	\$ 0.48

**Table of Contents****5. PROPERTY AND EQUIPMENT**

Net investment in property and equipment as of September 30, 2015, excluding assets held for sale (see Note 3), and December 31, 2014, consists of the following (in thousands):

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>Hotel properties:</b>		
Land and site improvements	\$ 1,293,334	\$ 1,351,160
Building and improvements	2,833,045	2,894,021
Furniture, fixtures and equipment	499,677	443,149
<b>Total hotel properties</b>	<b>4,626,056</b>	<b>4,688,330</b>
Corporate furniture, fixtures and equipment	22,718	19,957
Undeveloped land parcel	1,675	1,675
<b>Total cost</b>	<b>4,650,449</b>	<b>4,709,962</b>
<b>Less accumulated depreciation:</b>		
Hotel properties	(722,550)	(608,600)
Corporate furniture, fixtures and equipment	(15,748)	(13,914)
<b>Total accumulated depreciation</b>	<b>(738,298)</b>	<b>(622,514)</b>
<b>Property and equipment - net</b>	<b>\$ 3,912,151</b>	<b>\$ 4,087,448</b>

During the nine months ended September 30, 2015 and 2014, the Company, using Level 3 unobservable inputs, assessed property and equipment for potential impairment. The Company recognized an impairment charge of approximately \$9.0 million for the three and nine months ended September 30, 2015, in the accompanying unaudited condensed consolidated statements of operations. No impairment charge was recognized during the nine months ended September 30, 2014. Quantitative information with respect to unobservable inputs consists of internally developed cash flow models that include the following assumptions, among others: projections of revenues, expenses and hotel related cash flows based on assumed long-term growth rates, demand trends, expected future capital expenditures and estimated discount rates. These assumptions are based on the Company's historical data and experience, the Company's budgets, industry projections and micro and macro general economic projections.

As of September 30, 2015, substantially all of the hotel properties (678 out of 682 hotel properties) are pledged as security for ESH REIT's 2012 Mortgage Loan (as defined in Note 7).

**Table of Contents****6. INTANGIBLE ASSETS AND GOODWILL**

The Company's intangible assets and goodwill as of September 30, 2015, excluding assets held for sale (see Note 3), and December 31, 2014, consist of the following (dollars in thousands):

	Estimated Useful Life	September 30, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Book Value
Definite-lived intangible assets:				
Customer relationships	20 years	\$ 26,800	\$ (6,675)	\$ 20,125
Customer e-mail database	5 years	170	(169)	1
Total definite-lived intangible assets		26,970	(6,844)	20,126
Indefinite-lived intangible assets - trademarks		9,933		9,933
Total intangible assets		36,903	(6,844)	30,059
Goodwill		53,531		53,531
Total intangible assets and goodwill		\$ 90,434	\$ (6,844)	\$ 83,590

	Estimated Useful Life	December 31, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net Book Value
Definite-lived intangible assets:				
Customer relationships	20 years	\$ 26,800	\$ (5,670)	\$ 21,130
Customer e-mail database	5 years	170	(144)	26
Total definite-lived intangible assets		26,970	(5,814)	21,156
Indefinite-lived intangible assets - trademarks		10,500		10,500
Total intangible assets		37,470	(5,814)	31,656
Goodwill		55,633		55,633
Total intangible assets and goodwill		\$ 93,103	\$ (5,814)	\$ 87,289

The remaining weighted-average amortization period for definite-lived intangible assets is approximately 15 years as of September 30, 2015. Estimated future amortization expense for intangible assets is as follows (in thousands):

<b>Years Ending December 31,</b>	
Remainder of 2015	\$ 336

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2016	1,340
2017	1,340
2018	1,340
2019	1,340
Thereafter	14,430
<b>Total</b>	<b>\$ 20,126</b>



**Table of Contents****7. DEBT**

**Summary** - The Company's outstanding debt as of September 30, 2015, excluding liabilities related to assets held for sale (see Note 3), and December 31, 2014, consists of the following (dollars in thousands):

Loan	Stated Amount	Outstanding Principal		Stated Interest Rate	Interest Rate		Maturity Date	Amortization
		September 30, 2015	December 31, 2014		September 30, 2015	December 31, 2014		
<b>Mortgage loan</b>								
2012 Mortgage loan - Component A	\$ 350,000	\$	\$ 348,049	LIBOR <sup>(1)</sup> + 2.7872%	N/A	2.2260%	12/1/2015	Interest only
2012 Mortgage loan - Component B	350,000	111,157	350,000	3.4047%	3.4047%	3.4047%	12/1/2017	Interest only
2012 Mortgage loan - Component C	1,820,000	1,820,000	1,820,000	4.0547%	4.0547%	4.0547%	12/1/2019	Interest only
<b>Term loan facility</b>								
2014 Term loan <sup>(2)</sup>	375,000	365,064	373,320	LIBOR <sup>(1)(3)</sup> + 4.25%	5.00%	5.00%	6/24/2019	Interest only <sup>(4)</sup>
<b>Senior notes</b>								
2025 Notes	500,000	500,000		5.25%	5.25%	N/A	5/1/2025	Interest only
<b>Revolving credit facilities</b>								
ESH REIT Revolving Credit Facility	250,000 <sup>(6)</sup>			LIBOR <sup>(1)</sup> + 3.00%	N/A	N/A	11/18/2016 <sup>(5)</sup>	Interest only
Corporation Revolving Credit Facility	50,000			LIBOR <sup>(1)</sup> + 3.75%	N/A	N/A	11/18/2016 <sup>(5)</sup>	Interest only
Total		\$ 2,796,221	\$ 2,891,369					

- (1) London Interbank Offering Rate.
- (2) As of September 30, 2015 and December 31, 2014, the 2014 Term Loan is presented net of an unaccreted discount of approximately \$1.4 million and \$1.7 million, respectively.
- (3) The 2014 Term Loan includes a LIBOR floor of 0.75%.
- (4) There is no scheduled amortization on the 2014 Term Loan; however, subject to certain exceptions, mandatory prepayments are required up to 50% of Excess Cash Flow based on ESH REIT's Consolidated Leverage Ratio, each as defined. ESH REIT made a mandatory prepayment of approximately \$8.5 million during the three months ended March 31, 2015. An additional mandatory prepayment may be required during the three months ending March 31, 2016 based on the calculation of Excess Cash Flow for the year ending December 31, 2015.
- (5) Each revolving credit facility is subject to a one-year extension option.
- (6) ESH REIT is able to request to increase the facility to an amount up to \$350.0 million at any time, subject to certain conditions.

On May 15, 2015, using the proceeds from its 2025 Notes (as defined below), ESH REIT repaid \$500.0 million of the outstanding balance under its 2012 Mortgage Loan (as defined below), which consisted of \$318.0 million of Component A and \$182.0 million of Component B. During the nine months ended September 30, 2015, ESH REIT incurred approximately \$2.3 million of debt extinguishment costs in connection with the partial repayment of the 2012 Mortgage Loan, consisting of the write-off of unamortized deferred financing costs of approximately \$1.7 million and other costs of approximately \$0.6 million.

On June 23, 2014, using principally all of the net proceeds from its 2014 Term Loan (as defined below), ESH REIT repaid the remaining outstanding balance of \$365.0 million of its 2012 Mezzanine Loans (as defined below). During the nine months ended September 30, 2014, ESH REIT incurred approximately \$9.4 million of debt extinguishment costs in connection with the repayment of the 2012 Mezzanine Loans, consisting of the write-off of unamortized deferred financing costs of approximately \$5.1 million and prepayment penalties and other costs of approximately \$4.3 million.

Debt extinguishment costs are included as a component of net interest expense in the accompanying unaudited condensed consolidated statements of operations.

### **ESH REIT Mortgage Loan**

On November 30, 2012, ESH REIT entered into a \$2.52 billion mortgage loan comprised of three components (the 2012 Mortgage Loan). On May 15, 2015, ESH REIT repaid \$500.0 million of its 2012 Mortgage Loan using the proceeds from its 2025 Notes, which reduced the monthly required interest-only payments from approximately \$7.9 million to approximately \$6.8 million. Excluding liabilities related to assets held for sale of approximately \$29.3 million of Component A of the 2012 Mortgage Loan and approximately \$56.8 million of Component B of the 2012 Mortgage Loan (see Note 3), principal amounts, interest rates and maturities of components of the 2012 Mortgage Loan are included in the table above.

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Substantially all of ESH REIT's hotel properties serve as collateral for the 2012 Mortgage Loan. Under certain limited circumstances, losses related to the 2012 Mortgage Loan and costs incurred by the lenders are guaranteed by certain of the Corporation's subsidiaries up to an aggregate liability of \$252.0 million.

The occurrence of a Mortgage Loan Event of Default, a Debt Yield Trigger Event (a Debt Yield, as defined, of less than 9.0%), or a Guarantor Bankruptcy triggers a Cash Trap Event, each as defined. During the period of a Cash Trap Event, any excess cash flow, after all monthly requirements (including the payment of management fees and operating expenses) are fully funded, is held by the loan service agent as additional collateral for the 2012 Mortgage Loan. As of September 30, 2015, none of these events had occurred.

**ESH REIT Term Loan Facility**

On June 23, 2014, ESH REIT entered into a \$375.0 million term loan facility (the 2014 Term Loan). ESH REIT used principally all of the 2014 Term Loan net proceeds to repay the outstanding balance on its 2012 Mezzanine Loans of \$365.0 million. Subject to certain conditions, the principal amount of the 2014 Term Loan may be increased from time to time up to an amount which would not cause the Consolidated Leverage Ratio, as defined, to exceed 5.25 to 1.0. The 2014 Term Loan matures on June 24, 2019 and bears interest at a rate equal to (i) LIBOR (subject to a floor of 0.75%) plus 4.25%, or (ii) a base rate (determined by reference to the highest of (1) the prime lending rate, (2) the overnight federal funds rate plus 0.5%, or (3) the one-month adjusted LIBOR rate (subject to a floor of 0.75%) plus 1.0%) plus 3.25%. There is no scheduled amortization on the 2014 Term Loan; however, subject to certain exceptions, mandatory prepayments are required up to 50% of Excess Cash Flow, based on ESH REIT's Consolidated Leverage Ratio, each as defined. For the period from July 1, 2014 through December 31, 2014, ESH REIT's Excess Cash Flow, as defined, totaled approximately \$17.1 million, which required ESH REIT to make a mandatory prepayment of approximately \$8.5 million during the three months ended March 31, 2015. An additional mandatory prepayment may be required during the three months ending March 31, 2016 based on the calculation of Excess Cash Flow for the year ending December 31, 2015.

As of September 30, 2015 and December 31, 2014, the outstanding balance on the 2014 Term Loan was approximately \$365.1 million and \$373.3 million, respectively, net of an unaccrued discount of approximately \$1.4 million and \$1.7 million, respectively.

Obligations under the 2014 Term Loan are guaranteed by certain of ESH REIT's existing and future direct and indirect domestic subsidiaries, with certain exceptions, including certain entities that may not be pledged pursuant to the 2012 Mortgage Loan. The 2014 Term Loan is secured by a first-priority security interest in substantially all of the assets of ESH REIT and the guarantors under the facility on a pari passu basis with its obligations under the ESH REIT Revolving Credit Facility (as defined below), with certain exceptions, including certain entities that may not be pledged pursuant to the 2012 Mortgage Loan. The 2014 Term Loan may be repaid prior to its maturity, subject to the following prepayment penalties: (a) on or after June 24, 2015 but prior to December 24, 2015, an amount equal to 2.0% of the aggregate principal amount repaid and (b) on or after December 24, 2015 but prior to June 24, 2016, an amount equal to 1.0% of the aggregate principal amount repaid. Repayments on or after June 24, 2016 require no prepayment penalty.

During a Trigger Event, an Adjusted Trigger Event, a Default or an Event of Default, each as defined, ESH REIT is restricted from making cash distributions, subject to certain exceptions. As of September 30, 2015, none of these events had occurred.

**ESH REIT Senior Notes**

On May 15, 2015, ESH REIT issued \$500.0 million of 5.25% senior notes due in 2025 (the 2025 Notes ) under an indenture (the Indenture ) with Deutsche Bank Trust Company Americas, as trustee, at a price equal to 100% of their par value in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. ESH REIT used the proceeds and cash on hand to repay \$500.0 million of the outstanding balance under its 2012 Mortgage Loan. The 2025 Notes mature on May 1, 2025 and bear interest at a fixed rate of 5.25% per annum, payable semi-annually in arrears on May 1 and November 1 of each year, beginning November 1, 2015.

In connection with the issuance of the 2025 Notes, ESH REIT incurred costs of approximately \$11.5 million, inclusive of underwriter, credit rating agency and attorney fees and other costs. These issuance costs are included in deferred financing costs in the accompanying unaudited condensed consolidated balance sheet as of September 30, 2015 and will be amortized to net interest expense over the term of the 2025 Notes.

The 2025 Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis by each of ESH REIT 's subsidiaries that guarantee ESH REIT 's obligations under the 2014 Term Loan and the ESH REIT Revolving Credit Facility. The 2025 Notes rank equally in right of payment with ESH REIT 's existing and future senior unsecured indebtedness, and senior in right of payment to all future subordinated indebtedness, if any. The 2025 Notes are effectively junior to any of ESH REIT 's secured indebtedness to the extent of the value of the assets securing such indebtedness.

ESH REIT may redeem the 2025 Notes at any time on or after May 1, 2020, in whole or in part, at a redemption price equal to 102.625% of the principal amount, declining annually to 100% of the principal amount from May 1, 2023 and thereafter, plus accrued and unpaid interest. Prior to May 1, 2020, ESH REIT may redeem the 2025 Notes, in whole or in part, at a redemption price equal to

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100% of the principal amount, plus a make-whole premium, as defined in the Indenture, plus accrued and unpaid interest. Prior to May 1, 2018, subject to certain conditions, ESH REIT may redeem up to 35% of the aggregate principal amount of the 2025 Notes at a redemption price equal to 105.250% of the aggregate principal amount thereof, plus accrued and unpaid interest, with the net cash proceeds from certain equity offerings, provided 65% of the original amount of the principal remains outstanding after the occurrence of each such redemption. Upon a Change of Control, as defined, holders of the 2025 Notes have the right to require ESH REIT to redeem the 2025 Notes at 101% of the principal amount, plus accrued and unpaid interest.

The Indenture contains a number of customary covenants that, subject to certain exceptions, limit ESH REIT's ability and the ability of certain of its subsidiaries to incur additional debt, create certain liens, pay dividends or distributions, make certain investments and other payments, enter into affiliate transactions, sell assets or merge, consolidate or transfer substantially all of their assets, among other things. ESH REIT was in compliance with all covenants set forth in the Indenture as of September 30, 2015.

**Revolving Credit Facilities**

*ESH REIT Revolving Credit Facility* On November 18, 2013, ESH REIT entered into a \$250.0 million revolving credit facility (the ESH REIT Revolving Credit Facility). Subject to the satisfaction of certain criteria, ESH REIT is able to request to increase the facility to an amount up to \$350.0 million at any time. The facility provides for the issuance of up to \$50.0 million of letters of credit as well as borrowings on same day notice, referred to as swingline loans, in an amount up to \$20.0 million. ESH REIT incurs a fee of 0.35% or 0.175% on the unutilized revolver balance, based on the outstanding amount under the facility, and a fee of 3.125% on outstanding letters of credit due on the last day of each quarter. Borrowings under the facility bear interest at a rate equal to an adjusted LIBOR rate or a base rate determined by reference to the highest of (i) the prime lending rate, (ii) the overnight federal funds rate plus 0.5% or (iii) the one-month adjusted LIBOR rate plus 1.0%, plus an applicable margin of 2.00% for base rate loans and 3.00% for LIBOR loans. There is no scheduled amortization under the facility and the facility matures on November 18, 2016, subject to a one-year extension option. As of September 30, 2015 and December 31, 2014, ESH REIT had no letters of credit outstanding under this facility, an outstanding balance drawn of \$0 and borrowing capacity available of \$250.0 million.

ESH REIT's obligations under the ESH REIT Revolving Credit Facility are guaranteed by its existing and future and indirect domestic subsidiaries, with certain exceptions, including certain entities that may not provide guarantees pursuant to the 2012 Mortgage Loan. The ESH REIT Revolving Credit Facility is secured by a first-priority security interest in substantially all of the assets of ESH REIT and the guarantors under the facility, with certain exceptions, including certain entities that may not be pledged pursuant to the 2012 Mortgage Loan.

In order to avoid a Trigger Event or an Adjusted Trigger Event, the ESH REIT Revolving Credit Facility requires a Debt Yield and an Adjusted Debt Yield, each as defined, of at least 11.5%, and, to avoid an Event of Default, a Consolidated Leverage Ratio, as defined, of no more than 9.25 to 1.0 (with the requirement decreasing to no more than 9.0 to 1.0 over the remaining life of the facility) and a Debt Yield or Adjusted Debt Yield of at least 9.0%. The occurrence of a Trigger Event or an Adjusted Trigger Event requires ESH REIT to repay the outstanding facility balance and restricts its ability to draw additional proceeds. As of September 30, 2015, none of these events had occurred.

*Corporation Revolving Credit Facility* On November 18, 2013, the Corporation entered into a revolving credit facility (the Corporation Revolving Credit Facility) of \$75.0 million. On November 18, 2014, the borrowing availability under the facility decreased to \$50.0 million. The facility provides for the issuance of up to \$50.0 million of letters of credit as well as borrowings on same day notice, referred to as swingline loans, in an amount up to \$20.0

million. The Corporation incurs a fee of 0.35% or 0.175% on the unutilized revolver balance, based on the outstanding amount under the facility, and a fee of 3.875% on outstanding letters of credit due on the last day of each quarter. Borrowings under the facility bear interest at a rate equal to an adjusted LIBOR rate or a base rate determined by reference to the highest of (i) the prime lending rate, (ii) the overnight federal funds rate plus 0.5% or (iii) the one-month adjusted LIBOR rate plus 1.0%, plus an applicable margin of 2.75% for base rate loans and 3.75% for LIBOR loans. There is no scheduled amortization under the facility and the facility matures on November 18, 2016, subject to a one-year extension option. As of September 30, 2015 and December 31, 2014, the Corporation had one letter of credit outstanding under this facility of \$3.6 million, an outstanding balance drawn of \$0 and borrowing capacity available of \$46.4 million.

The Corporation's obligations under the Corporation Revolving Credit Facility are guaranteed by its existing and future direct and indirect domestic subsidiaries, with certain exceptions, including, but not limited to, ESH REIT and its subsidiaries and certain other entities that may not provide guarantees pursuant to ESH REIT's 2012 Mortgage Loan and 2014 Term Loan. The Corporation Revolving Credit Facility is secured by a first-priority security interest in substantially all of the assets of the Corporation and the guarantors under the facility, with certain exceptions, including certain entities that may not be pledged pursuant to the 2012 Mortgage Loan and 2014 Term Loan.

In order to avoid a Trigger Event or an Adjusted Trigger Event, the Corporation Revolving Credit Facility requires a Debt Yield and an Adjusted Debt Yield, each as defined, of at least 12.0%, and, to avoid an Event of Default, a Consolidated Leverage Ratio, as defined, of no more than 9.0 to 1.0 (with the requirement decreasing to no more than 8.75 to 1.0 over the remaining life of the facility) and a Debt Yield or Adjusted Debt Yield of at least 9.0%. The occurrence of a Trigger Event or an Adjusted Trigger Event requires the Corporation to repay the outstanding facility balance and restricts its ability to make additional borrowings. As of September 30, 2015, none of these events had occurred.

**Table of Contents****ESH REIT Mezzanine Loans**

On November 30, 2012, ESH REIT entered into three mezzanine loans totaling \$1.08 billion (the 2012 Mezzanine Loans). The 2012 Mezzanine Loans would have matured on December 1, 2019, with all outstanding principal and unpaid interest due on that date; however, during 2013, ESH REIT repaid \$715.0 million of the 2012 Mezzanine Loans and on June 23, 2014, using principally all of the net proceeds from its 2014 Term Loan, ESH REIT repaid the remaining outstanding balance of \$365.0 million of the 2012 Mezzanine Loans, which had a weighted-average interest rate of 9.4%.

**Future Maturities of Debt** The future maturities of debt, excluding liabilities related to assets held for sale of approximately \$86.1 million (see Note 3), as of September 30, 2015, are as follows (in thousands):

<b>Years Ending December 31,</b>	
Remainder of 2015	\$
2016	
2017	111,157
2018	
2019	2,185,064 <sup>(1)</sup>
Thereafter	500,000
<b>Total</b>	<b>\$ 2,796,221</b>

(1) The 2014 Term Loan is presented net of an unaccreted discount of approximately \$1.4 million. Subject to certain exceptions, mandatory prepayments are required up to 50% of Excess Cash Flow based on ESH REIT's Consolidated Leverage Ratio, each as defined. ESH REIT made a mandatory prepayment of approximately \$8.5 million during the three months ended March 31, 2015. An additional mandatory prepayment may be required during the three months ending March 31, 2016 based on the calculation of Excess Cash Flow for the year ending December 31, 2015.

**Fair Value of Debt** As of September 30, 2015, including approximately \$86.1 million in outstanding indebtedness classified as liabilities related to assets held for sale (see Note 3), and December 31, 2014, the estimated fair value of ESH REIT's 2012 Mortgage Loan, 2014 Term Loan and 2025 Notes was approximately \$2.9 billion. The estimated fair values of ESH REIT's 2012 Mortgage Loan, 2014 Term Loan and 2025 Notes are determined by comparing current borrowing rates and risk spreads offered in the market to the stated interest rates and spreads on ESH REIT's 2012 Mortgage Loan, 2014 Term Loan and 2025 Notes (Level 2 fair value measures) or quoted market prices (Level 1 fair value measures), when available.

**8. MANDATORILY REDEEMABLE PREFERRED STOCK**

The Corporation has authorized 350.0 million shares of preferred stock, par value \$0.01 per share, of which 21,202 shares of mandatorily redeemable voting preferred stock were issued and outstanding as of September 30, 2015 and December 31, 2014. Dividends on these preferred shares are payable quarterly in arrears at a rate of 8.0% per year. With respect to dividend, distribution and liquidation rights, the 8.0% voting preferred stock ranks senior to the Corporation's common stock. Holders of the 8.0% voting preferred stock are generally entitled to one vote for each share and will vote together with the Corporation common stock as a single class on all matters that the Corporation's

common shareholders are entitled to vote upon. On or after November 15, 2018, a holder of the 8.0% voting preferred stock has the right to require the Corporation to redeem in cash the 8.0% voting preferred stock at \$1,000 per share plus any accumulated but unpaid dividends. On November 15, 2020, the Corporation shall mandatorily redeem all of the 8.0% voting preferred stock at \$1,000 per share plus any accumulated but unpaid dividends.

Due to the fact that the outstanding 8.0% voting preferred stock is mandatorily redeemable by the Corporation, it is classified as a liability on the accompanying unaudited condensed consolidated balance sheets. Dividends on these preferred shares are classified as net interest expense on the accompanying unaudited condensed consolidated statements of operations.

**Fair Value of Mandatorily Redeemable Preferred Stock** As of September 30, 2015 and December 31, 2014, the estimated fair value of the 8.0% voting preferred stock was approximately \$21.4 million and \$21.2 million, respectively. The estimated fair value of the 8.0% voting preferred stock is determined by comparing current borrowing rates and risk spreads offered in the market to the stated interest rates and spreads (Level 2 fair value measures).



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**Table of Contents****9. INCOME TAXES**

The Company's taxable income includes the taxable income of its wholly-owned subsidiaries and distribution income related to its ownership of approximately 55% of ESH REIT.

ESH REIT has elected to be taxed and expects to continue to qualify as a real estate investment trust ( REIT ) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code ). A REIT is a legal entity that holds real estate assets and is generally not subject to federal and state income taxes. In order to maintain qualification as a REIT, ESH REIT is required to distribute at least 90% of its taxable income, excluding net capital gains, to its shareholders each year. In addition, ESH REIT must meet a number of complex organizational and operational requirements. If ESH REIT were to fail to qualify as a REIT in any taxable year, it would be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and generally would be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which it lost its REIT qualification. Even in qualifying as a REIT, ESH REIT may be subject to state and local taxes in certain jurisdictions, and is subject to federal income and excise taxes on undistributed income.

In 2014, ESH REIT distributed more than 100% of its taxable income and therefore, incurred no federal income tax. In the future, ESH REIT intends to distribute approximately 95% of its taxable income, excluding net capital gains. Accordingly, ESH REIT is expected to be subject to income taxes on approximately 5% of its future taxable income. As a result, the Company has recorded deferred tax assets and liabilities to reflect the fact that an estimated 5% of ESH REIT's future taxable income is expected to be subject to tax. As of September 30, 2015, the majority of the deferred tax assets on the accompanying unaudited condensed consolidated balance sheet relate to net operating loss carryforwards of ESH REIT that expire in 2032. As of December 31, 2014, the deferred tax assets are included in the net deferred tax liability balance on the accompanying unaudited condensed consolidated balance sheet.

The Company recorded a provision for federal, state and foreign income taxes of approximately \$21.3 million for the three months ended September 30, 2015, an effective rate of approximately 26.8%, as compared with a provision of approximately \$19.0 million for the three months ended September 30, 2014, an effective rate of approximately 24.0%. The Company recorded a provision for federal, state and foreign income taxes of approximately \$48.1 million for the nine months ended September 30, 2015, an effective rate of approximately 24.2%, as compared with a provision of approximately \$38.2 million for the nine months ended September 30, 2014, an effective rate of approximately 23.8%. The Company's effective rate differs from the federal statutory rate of 35% primarily due to ESH REIT's status as a REIT under the provisions of the Code. As previously discussed, approximately 55% of ESH REIT's distributions are subject to corporate income tax.

The Company's income tax returns for the years 2012 to present are subject to examination by the Internal Revenue Service and other taxing authorities.

**10. COMMITMENTS AND CONTINGENCIES**

**Lease Commitments** Rent expense on office and ground leases is recognized on a straight-line basis and was approximately \$0.9 million and \$0.8 million for the three months ended September 30, 2015 and 2014, respectively, and approximately \$2.5 million and \$2.3 million for the nine months ended September 30, 2015 and 2014, respectively. Ground lease expense is included in hotel operating expenses and office lease expense is included in general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations.

**Other Commitments** The Company has a commitment to make quarterly payments in lieu of taxes to the owner of the land on which one of its properties is located. The cost related to this commitment was approximately \$0.1 million for

each of the three months ended September 30, 2015 and 2014, and approximately \$0.2 million for each of the nine months ended September 30, 2015 and 2014, and is included in hotel operating expenses in the accompanying unaudited condensed consolidated statements of operations.

**Letters of Credit** As of September 30, 2015, the Company had one outstanding letter of credit, issued by the Corporation, for \$3.6 million, which is collateralized by the Corporation Revolving Credit Facility.

**Legal Contingencies** The Company is not a party to any litigation or claims other than routine matters arising in the ordinary course of business that are incidental to the operation of the business of the Company. The Company believes that the results of all claims and litigation, individually or in the aggregate, will not have a material adverse effect on its business or unaudited condensed consolidated financial statements.

**Table of Contents****11. EQUITY-BASED COMPENSATION**

The Corporation and ESH REIT each maintain a long-term incentive plan ( LTIP ), as amended and approved by their shareholders. Under the LTIPs, the Corporation and ESH REIT may issue to eligible employees or directors restricted stock (i.e., Paired Share) awards, restricted stock units or other equity-based awards with service, performance or market vesting conditions. The aggregate number of Paired Shares that may be issued under the LTIPs shall not exceed 8.0 million, of which no more than 4.0 million may be granted as incentive stock options. Each of the Corporation's and ESH REIT's LTIP has a share reserve of an equivalent number of shares of Corporation common stock and Class B common stock of ESH REIT, respectively. As of September 30, 2015, 6,424,148 Paired Shares were available for future issuance under the LTIPs.

Equity-based compensation cost is recognized by amortizing the grant-date fair value of equity-based awards, less estimated forfeitures, on a straight-line basis over the requisite service period of each award. A portion of the grant-date fair value of all equity-based awards is allocated to a share of common stock of the Corporation and a portion is allocated to a share of Class B common stock of ESH REIT.

Total recognized equity-based compensation was approximately \$3.0 million and \$2.3 million for the three months ended September 30, 2015 and 2014, respectively, and approximately \$7.9 million and \$7.2 million for the nine months ended September 30, 2015 and 2014, respectively, and is included in general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations.

As of September 30, 2015, there was approximately \$15.2 million of unrecognized compensation cost related to outstanding equity-based awards, which is expected to be recognized subsequent to September 30, 2015 over a weighted-average period of approximately 2.0 years. Total unrecognized compensation cost will be adjusted for actual forfeitures.

Restricted stock award and restricted stock unit (collectively, RSA/RSU) activity during the nine months ended September 30, 2015, was as follows:

	<b>Number of RSAs/RSUs (in thousands)</b>	<b>Weighted- Average Grant-Date Fair Value per RSA/RSU</b>
Outstanding RSAs/RSUs - January 1, 2015	1,071	\$ 16.43
RSAs/RSUs granted in 2015	1,038	\$ 12.44
RSAs/RSUs settled in 2015	(436)	\$ 14.37
RSAs/RSUs forfeited in 2015	(42)	\$ 16.07
<b>Outstanding RSAs/RSUs - September 30, 2015</b>	<b>1,631</b>	<b>\$ 14.45</b>
Vested RSAs/RSUs - September 30, 2015	118	\$ 23.94
Nonvested RSAs/RSUs - September 30, 2015	1,513	\$ 13.71

**Service-Based Awards**

The Corporation granted 454,048 service-based awards during the nine months ended September 30, 2015 with a weighted-average grant-date fair value per award of \$18.91. ESH REIT granted 7,552 service-based awards during the nine months ended September 30, 2015 with a grant-date fair value per award of \$19.74. The grant-date fair value of awards with service vesting conditions is based on the closing price of a Paired Share on the date of grant. Service-based awards vest over a period of two to four years, subject to the grantee's continued employment or service.

### **Performance-Based Awards**

The Corporation granted 19,126 awards with performance vesting conditions during the nine months ended September 30, 2015 with a grant-date fair value per award of \$19.07 to certain executive officers. The grant-date fair value of awards with performance vesting conditions is based on the closing price of a Paired Share on the date of grant, adjusted to reflect the probability of the achievement of performance targets defined in the award agreements. These awards vest over a one-year period, subject to the grantee's continued employment, with the ability to earn a range of 0% to 200% of the awarded number of Paired Shares based on linear interpolation of the achievement of the performance targets defined in the award agreements. As of September 30, 2015, the Corporation expects that the awards with performance vesting conditions will be satisfied at their target level.

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During the nine months ended September 30, 2015, the Corporation granted 57,388 and 500,000 awards with market vesting conditions with a grant-date fair value per award of \$20.76 and \$5.24, respectively, to certain executive officers. The grant-date fair value of awards with market vesting conditions is based on a valuation, typically performed by a third party, which uses a Monte Carlo simulation model that includes assumptions related to the future performance of a Paired Share or the future performance of a Paired Share versus shares of other publicly traded lodging companies identified in the award agreements. Those assumptions include expected volatility, risk-free interest rates and dividend reinvestment. These awards vest over a three-year period, subject to the grantee's continued employment, with the ability to earn a range of 0% to 150% of the awarded number of Paired Shares based on linear interpolation of the shareholder return of a Paired Share or the shareholder return of a Paired Share versus the shareholder return of other publicly traded lodging companies identified in the award agreements.

**12. DEFINED CONTRIBUTION BENEFIT PLAN**

ESA Management has a savings plan that qualifies under Section 401(k) of the Code for all employees meeting the eligibility requirements of the plan. The plan has an employer-matching contribution of 50% of the first 6% of an employee's contribution, which vests over an employee's initial five-year service period. The plan also provides for contributions up to 100% of eligible employee pretax salary, subject to the Code's annual deferral limit of \$18,000 and \$17,500 during 2015 and 2014, respectively. Employer contributions, net of forfeitures, totaled approximately \$0.6 million and \$0.5 million for the three months ended September 30, 2015 and 2014, respectively, and approximately \$1.4 million and \$1.3 million for the nine months ended September 30, 2015 and 2014, respectively.

**13. SUBSEQUENT EVENTS**

On October 27, 2015, the Board of Directors of the Corporation declared a cash distribution of \$0.02 per share for the third quarter of 2015 on its common stock. The distribution is payable on November 24, 2015 to shareholders of record as of November 10, 2015. Also on October 27, 2015, the Board of Directors of ESH REIT declared a cash distribution of \$0.15 per share for the third quarter of 2015 on its Class A and Class B common stock. This distribution is also payable on November 24, 2015 to shareholders of record as of November 10, 2015.

**Table of Contents****ESH HOSPITALITY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014****(In thousands, except share and per share data)****(Unaudited)**

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
PROPERTY AND EQUIPMENT - Net of accumulated depreciation of \$720,430 and \$606,960	\$ 3,912,678	\$ 4,079,648
RESTRICTED CASH	168,604	49,999
CASH AND CASH EQUIVALENTS	33,447	33,816
RENTS RECEIVABLE FROM EXTENDED STAY AMERICA, INC.	21,806	1,984
DEFERRED RENTS RECEIVABLE FROM EXTENDED STAY AMERICA, INC.	38,459	30,883
GOODWILL	52,245	54,297
DEFERRED FINANCING COSTS - Net of accumulated amortization of \$19,519 and \$21,273	37,612	35,033
DEFERRED TAX ASSETS	4,618	3,206
OTHER ASSETS	14,163	10,844
DUE FROM EXTENDED STAY AMERICA, INC.		1,238
ASSETS HELD FOR SALE	150,567	
<b>TOTAL ASSETS</b>	<b>\$ 4,434,199</b>	<b>\$ 4,300,948</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Mortgage loan payable	\$ 1,931,157	\$ 2,518,049
Term loan facility payable - Net of unaccrued discount of \$1,399 and \$1,680	365,064	373,320
Senior notes payable	500,000	
Unearned rental revenues from Extended Stay America, Inc.	145,927	28,109
Due to Extended Stay America, Inc.	121,747	
Accounts payable and accrued liabilities	72,478	49,437
Deferred tax liabilities	1,513	
Liabilities related to assets held for sale	96,999	
<b>Total liabilities</b>	<b>3,234,885</b>	<b>2,968,915</b>

**COMMITMENTS AND CONTINGENCIES (Note 9)****EQUITY:**

Common stock - Class A: \$0.01 par value, 4,300,000,000 shares authorized, 250,493,583 and 250,303,494 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively; Class B: \$0.01 par value, 7,800,000,000 shares authorized, 204,593,912 and 204,517,265 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	4,554	4,551
Preferred stock - no par value, \$1,000 liquidation value, 125 shares authorized, issued and outstanding as of September 30, 2015 and December 31, 2014	73	73
Additional paid in capital	1,168,517	1,182,611
Retained earnings	38,311	150,652
Accumulated other comprehensive loss	(12,141)	(5,854)
<b>Total equity</b>	<b>1,199,314</b>	<b>1,332,033</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 4,434,199</b>	<b>\$ 4,300,948</b>

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****ESH HOSPITALITY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(In thousands, except per share data)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
REVENUES: Rental revenues from Extended Stay America, Inc.	\$ 156,841	\$ 139,605	\$ 403,632	\$ 386,851
OPERATING EXPENSES:				
Hotel operating expenses	20,109	23,452	65,465	71,136
General and administrative expenses	3,892	3,304	12,251	12,831
Depreciation and amortization	51,043	46,176	148,365	136,258
Gain on sale of hotel properties		(864)		(864)
Total operating expenses	75,044	72,068	226,081	219,361
OTHER INCOME			37	263
INCOME FROM OPERATIONS	81,797	67,537	177,588	167,753
OTHER NON-OPERATING EXPENSE	1,209	1,069	2,275	2,719
INTEREST EXPENSE, NET	34,394	31,986	99,679	111,416
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	46,194	34,482	75,634	53,618
INCOME TAX EXPENSE (BENEFIT)	424	(1,858)	630	(1,303)
NET INCOME	\$ 45,770	\$ 36,340	\$ 75,004	\$ 54,921
NET INCOME PER COMMON SHARE:				
Class A - Basic	\$ 0.10	\$ 0.08	\$ 0.16	\$ 0.12
Class A - Diluted	\$ 0.10	\$ 0.08	\$ 0.16	\$ 0.12
Class B - Basic	\$ 0.10	\$ 0.08	\$ 0.17	\$ 0.12
Class B - Diluted	\$ 0.10	\$ 0.08	\$ 0.16	\$ 0.12



**WEIGHTED AVERAGE COMMON SHARES  
OUTSTANDING:**

Class A - Basic	250,494	250,303	250,437	250,299
Class A - Diluted	250,494	250,303	250,437	250,299
Class B - Basic	204,281	203,593	204,171	203,449
Class B - Diluted	204,685	204,540	204,538	204,492

**CASH DISTRIBUTIONS PER COMMON SHARE:**

Class A	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.38
Class B	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.38

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****ESH HOSPITALITY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(In thousands)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
NET INCOME	\$ 45,770	\$ 36,340	\$ 75,004	\$ 54,921
FOREIGN CURRENCY TRANSLATION LOSS, NET OF TAX	(3,562)	(2,049)	(6,287)	(407)
COMPREHENSIVE INCOME	\$ 42,208	\$ 34,291	\$ 68,717	\$ 54,514

See accompanying notes to unaudited condensed consolidated financial statements.

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## ESH HOSPITALITY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(In thousands, except preferred stock shares)

(Unaudited)

	Common Stock		Preferred Stock			Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
	Class A Shares	Class B Shares	Amount	Shares	Amount		(Accumulated Deficit)		
BALANCE - January 1, 2014	250,296	204,788	\$ 4,551	125	\$ 73	\$ 1,336,154	\$ (9,617)	\$ (3,660)	\$ 1,327,501
Net income							54,921		54,921
Foreign currency translation loss								(407)	(407)
Issuance of common stock	7					138			138
Common distributions						(154,564)	(18,494)		(173,058)
Preferred distributions							(8)		(8)
Equity-based compensation		(161)				514	(4)		510
BALANCE - September 30, 2014	250,303	204,627	\$ 4,551	125	\$ 73	\$ 1,182,242	\$ 26,798	\$ (4,067)	\$ 1,209,597

	Common Stock		Preferred Stock			Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
	Class A Shares	Class B Shares	Amount	Shares	Amount				
BALANCE - January 1, 2015	250,303	204,517	\$ 4,551	125	\$ 73	\$ 1,182,611	\$ 150,652	\$ (5,854)	\$ 1,332,033
Net income							75,004		75,004
								(6,287)	(6,287)

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Foreign currency translation loss, net of tax									
Issuance of common stock	191	97	3			3,205			3,208
Common distributions						(17,698)	(187,333)		(205,031)
Preferred distributions							(12)		(12)
Equity-based compensation		(20)				399			399
 BALANCE - September 30, 2015	 250,494	 204,594	 \$ 4,554	 125	 \$ 73	 \$ 1,168,517	 \$ 38,311	 \$ (12,141)	 \$ 1,199,314

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****ESH HOSPITALITY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(In thousands)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 75,004	\$ 54,921
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	148,365	136,258
Foreign currency transaction loss	2,275	2,719
Amortization and write-off of deferred financing costs and accretion of debt discount	8,724	14,138
Amortization of above-market ground leases	(102)	(101)
Loss on disposal of property and equipment	3,233	2,784
Gain on sale of hotel properties		(864)
Equity-based compensation	399	510
Deferred income tax expense	101	1,225
Deferred rents receivable from Extended Stay America, Inc.	(9,808)	(20,467)
Changes in assets and liabilities:		
Due to/from Extended Stay America, Inc., net	9,933	28,886
Other assets	(7,544)	(10,255)
Unearned rental revenues/rents receivable from Extended Stay America, Inc., net	105,327	60,886
Accounts payable and accrued liabilities	25,190	12,992
Net cash provided by operating activities	361,097	283,632
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(137,288)	(119,910)
Proceeds from asset dispositions, net	852	3,223
Increase in restricted cash	(118,605)	(112,518)
Proceeds from insurance recoveries	3,711	7,272
Net cash used in investing activities	(251,330)	(221,933)
<b>FINANCING ACTIVITIES:</b>		

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Principal payments on mortgage loan	(500,777)	(1,794)
Proceeds from term loan facility, net of discount		373,125
Principal payments on term loan facility	(8,537)	
Proceeds from senior notes	500,000	
Proceeds from revolving credit facility	65,000	143,000
Payments on revolving credit facility	(65,000)	(163,000)
Principal payments on mezzanine loans		(365,000)
Payments of deferred financing costs	(11,476)	(5,222)
Net proceeds from Extended Stay America, Inc.	113,194	114,402
Issuance of common stock	2,414	138
Common distributions	(204,938)	(172,866)
Preferred distributions	(16)	(8)
Net cash used in financing activities	(110,136)	(77,225)

CHANGES IN CASH AND CASH EQUIVALENTS DUE TO CHANGES IN FOREIGN CURRENCY EXCHANGE RATES

NET DECREASE IN CASH AND CASH EQUIVALENTS	(369)	(15,526)
CASH AND CASH EQUIVALENTS - Beginning of period	33,816	18,597

CASH AND CASH EQUIVALENTS - End of period	\$ 33,447	\$ 3,071
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SUPPLEMENTAL CASH FLOW INFORMATION:

Cash payments for interest, excluding prepayment and other penalties	\$ 74,043	\$ 85,570
Cash payments for income taxes - Net of refunds of \$37 and \$124	\$ 1,040	\$ 827

NONCASH INVESTING AND FINANCING ACTIVITIES:

Capital expenditures included in due to/from Extended Stay America, Inc. and accounts payable and accrued liabilities	\$ 15,946	\$ 13,523
Common distributions included in accounts payable and accrued liabilities	\$ 458	\$ 200

See accompanying notes to unaudited condensed consolidated financial statements.

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**ESH HOSPITALITY, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014, AND FOR THE THREE AND NINE MONTHS ENDED**

**SEPTEMBER 30, 2015 AND 2014**

**(Unaudited)**

**1. BUSINESS, ORGANIZATION AND BASIS OF CONSOLIDATION**

ESH Hospitality, Inc. ( ESH REIT ) was formed as a limited liability company in the state of Delaware on September 16, 2010 and was converted to a corporation on November 5, 2013. Extended Stay America, Inc. (the Corporation ) was incorporated in the state of Delaware on July 8, 2013. On November 18, 2013, the Corporation and ESH REIT completed an initial public offering of 32,487,500 Paired Shares for cash consideration of \$20.00 per Paired Share, each Paired Share consisting of one share of common stock, par value \$0.01 per share, of the Corporation, that is attached to and trades as a single unit with one share of Class B common stock, par value \$0.01 per share, of ESH REIT. The Corporation owns, and is expected to continue to own, all of the issued and outstanding Class A common stock of ESH REIT, which represents approximately 55% of the outstanding common stock of ESH REIT.

On June 5, 2015, the Corporation and ESH REIT filed an automatic shelf registration statement with the U.S. Securities and Exchange Commission ( SEC ) pursuant to which, from time to time, (i) the Corporation and ESH REIT may offer and sell an unlimited number of Paired Shares and (ii) certain selling stockholders (the Selling Shareholders ) may offer and sell up to 142,960,388 Paired Shares. The Selling Shareholders consist solely of entities affiliated with the Sponsors (as defined below) and do not include officers or directors of the Corporation or ESH REIT. As of September 30, 2015, the Corporation, ESH REIT and the Selling Shareholders have not sold any securities registered pursuant to the automatic shelf registration statement. The Corporation and ESH REIT incurred professional fees in connection with the registration of the Paired Shares. For the nine months ended September 30, 2015, total costs incurred and expensed by ESH REIT were approximately \$0.4 million.

As of September 30, 2015 and December 31, 2014, ESH REIT owned 679 hotel properties in 44 U.S. states, consisting of 75,500 rooms, and three hotels in Canada consisting of 500 rooms. The hotels are operated by subsidiaries of the Corporation (the Operating Lessees ) pursuant to leases between ESH REIT and the Operating Lessees. The hotels are managed by ESA Management LLC ( ESA Management ), a subsidiary of the Corporation, pursuant to management agreements between ESA Management and the Operating Lessees and a services agreement between ESA Management and ESH REIT. The majority of hotels are operated under the core brand Extended Stay America. Three Canadian hotels operate under the brand Extended Stay Canada and 47 hotels operate under the brand Crossland Economy Studios. The brands are owned by ESH Hospitality Strategies LLC ( ESH Strategies ), also a subsidiary of the Corporation, which licenses the brands to the Operating Lessees.

On September 18, 2015, subsidiaries of ESH REIT, together with a subsidiary of the Corporation, entered into a purchase and sale agreement to sell a portfolio of 53 of ESH REIT's hotel properties, 47 of which operate under the Crossland Economy Studios brand and six of which operate under the Extended Stay America brand, and certain of the Corporation's intellectual property of Crossland Economy Studios for \$285.0 million, of which \$273.0 million relates to ESH REIT, subject to customary adjustments. The transaction is expected to close in the fourth quarter of 2015. Upon closing, the existing operating lease will be amended to carve out assets that ESH REIT no longer owns. As of September 30, 2015, ESH REIT classified its portion of the contracted assets and their related liabilities as assets held for sale and liabilities related to assets held for sale, respectively, in the accompanying unaudited condensed consolidated balance sheet (see Note 3).

As of September 30, 2015 and December 31, 2014, the public owned approximately 29.6% and 28.9%, respectively, of the outstanding Paired Shares, while Centerbridge Partners, L.P., Paulson & Co. Inc. and the Blackstone Group, L.P. and their affiliates (collectively, the Sponsors) and senior management, including certain directors, owned approximately 70.4% and 71.1%, respectively, of the outstanding Paired Shares.

### **Basis of Consolidation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ( U.S. GAAP ). All intercompany accounts and transactions have been eliminated.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Interim Presentation** Certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. GAAP have been condensed or omitted in the accompanying unaudited condensed consolidated financial statements. ESH REIT believes the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2014 included in the combined annual report on Form 10-K filed with the SEC on February 26, 2015.



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The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal and recurring items) necessary to present fairly ESH REIT's financial position as of September 30, 2015, the results of ESH REIT's operations and comprehensive income for the three and nine months ended September 30, 2015 and 2014 and changes in equity and cash flows for the nine months ended September 30, 2015 and 2014. Interim results are not necessarily indicative of full year performance because of the impact of accounting for contingent rental payments under contractual lease arrangements.

**Use of Estimates** The preparation of the accompanying unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management used significant estimates to estimate the useful lives of tangible assets as well as in the assessment of tangible assets and goodwill for impairment. Actual results could differ from those estimates.

**Property and Equipment** Property and equipment additions are recorded at cost. Major improvements that extend the life or utility of property or equipment are capitalized and depreciated over a period equal to the shorter of the estimated useful life of the improvement or the remaining estimated useful life of the asset. Ordinary repairs and maintenance are charged to expense as incurred. Depreciation and amortization are recorded on a straight-line basis over estimated useful lives which range from 1 year to 49 years.

Management assesses whether there has been impairment of the value of property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Recoverability of property and equipment is measured by a comparison of the carrying amount of a group of hotel properties (groups of hotel properties align with hotels as they are grouped under ESH REIT's leases) to the estimated future undiscounted cash flows expected to be generated by the group of hotel properties. Impairment is recognized when estimated future undiscounted cash flows, including proceeds from disposition, are less than the carrying value of a group of hotel properties.

To the extent that a group of hotel properties is impaired, the excess carrying amount of the group of hotel properties over its estimated fair value is charged to operating earnings. Fair value is determined based upon the discounted cash flows of a group of hotel properties, quoted market prices or independent appraisals, as considered necessary. No impairment charge was recognized during the nine months ended September 30, 2015 or 2014 (see Note 5). The estimation of future undiscounted cash flows is inherently uncertain and relies upon assumptions regarding current and future economic and market conditions. If such conditions change, then an impairment charge to reduce the carrying value of a group of hotel properties could occur in a future period in which conditions change.

**Assets Held For Sale** ESH REIT classifies assets as held for sale when management commits to a formal plan to sell the assets, actively seeks a buyer for the assets and the consummation of a sale is considered probable and is expected within one year. ESH REIT considers the consummation of a sale probable once a purchase and sale agreement has been executed, the buyer has a significant non-refundable deposit at risk and no significant financing contingencies exist. Upon designating an asset as held for sale, ESH REIT stops recognizing depreciation expense and records the asset at the lower of its carrying value, which includes allocable goodwill, or its estimated fair value, less estimated costs to sell. Any such adjustment in the carrying value is recognized as an impairment charge. As of September 30, 2015, ESH REIT classified certain assets and their related liabilities as assets held for sale and liabilities related to assets held for sale, respectively, in the accompanying unaudited condensed consolidated balance sheet (see Note 3).

**Discontinued Operations** Effective January 1, 2014, ESH REIT early adopted Accounting Standards Update No. 2014-08 issued by the Financial Accounting Standards Board ( FASB ) which addresses the classification and

reporting of discontinued operations. This update defines discontinued operations as a component of an entity that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This guidance generally results in reporting discontinued operations less frequently than under the previous accounting standard. For example, the sale of the two hotels in July 2014 was not reported as discontinued operations as it did not represent a strategic shift that had a major effect on ESH REIT's operations or financial results, nor is the anticipated sale of the portfolio of 53 hotel properties, for which the assets and related liabilities are classified as held for sale as of September 30, 2015, reported as discontinued operations as it does not represent a strategic shift that will have a major effect on ESH REIT's operations or financial results after it closes (see Note 3).

**Revenue Recognition** ESH REIT's sole source of revenues is rental revenues derived from leases with the Operating Lessees. ESH REIT records rental revenues on a straight-line basis as they are earned during the lease terms. Rents receivable from Extended Stay America, Inc. on the accompanying unaudited condensed consolidated balance sheets represent monthly rental amounts contractually due from the Operating Lessees. Deferred rents receivable from Extended Stay America, Inc. on the accompanying unaudited condensed consolidated balance sheets represent the cumulative difference between straight-line rental revenues recognized and rental revenues contractually due. As of September 30, 2015, approximately \$38.5 million, excluding approximately \$2.2 million classified as assets held for sale (see Note 3), is expected to be received in cash by October 2018.

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Lease rental payments received prior to ESH REIT rendering services are included in unearned rental revenues from Extended Stay America, Inc. on the accompanying unaudited condensed consolidated balance sheets. Contingent rental revenues, specifically percentage rental revenues related to hotel revenues of the Operating Lessees, are recognized when such amounts become fixed and determinable (i.e., percentage rental revenue thresholds have been achieved).

**Segments** ESH REIT's business represents a single operating segment based on the way ESH REIT manages its business. ESH REIT leases its hotels to similar classes of customers, each a subsidiary of the Corporation. The amounts of long-lived assets and revenues outside the U.S. are not significant for any period presented.

**Recently Issued Accounting Standards**

*Imputation of Interest Simplifying the Presentation of Debt Issuance Costs* In April 2015, the FASB issued an accounting standards update which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts. This update does not affect the current guidance on the recognition and measurement of debt issuance costs or the amortization of debt issuance costs as interest expense. This updated standard will be effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted, and shall be applied retrospectively. ESH REIT expects to adopt this accounting standards update in the fourth quarter of 2015. As of September 30, 2015, ESH REIT has approximately \$35.8 million of debt issuance costs, net of accumulated amortization, excluding amounts related to assets held for sale (see Note 3) and the ESH REIT Revolving Credit Facility (as defined in Note 6), on its accompanying unaudited condensed consolidated balance sheet, which after adoption of this updated standard will be presented as a reduction to the amounts of their related debt liabilities.

*Intangibles Goodwill and Other Internal-Use Software* In April 2015, the FASB issued an accounting standards update which clarifies the accounting for fees paid by a customer in a cloud computing arrangement. This update provides guidance to customers regarding whether a cloud computing arrangement includes the sale or license of software or, alternatively, the sale of a service. This updated standard will be effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted, and may be applied either prospectively or retrospectively. ESH REIT does not expect the adoption of this updated standard to have a material effect on its consolidated financial statements.

*Consolidation Amendments to the Consolidation Analysis* In February 2015, the FASB issued an accounting standards update which amends the consolidation requirements under U.S. GAAP, changing the analysis performed by a company to determine whether it has a variable interest in an entity and when to consolidate such entities. This updated standard will be effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted, and may be applied using one of two retrospective application methods. ESH REIT does not expect the adoption of this updated standard to have a material effect on its consolidated financial statements.

**Table of Contents****3. ASSETS HELD FOR SALE**

On September 18, 2015, subsidiaries of ESH REIT, together with a subsidiary of the Corporation, entered into a purchase and sale agreement to sell a portfolio of 53 of ESH REIT's hotel properties and certain of the Corporation's intellectual property of Crossland Economy Studios for \$285.0 million, of which \$273.0 million relates to ESH REIT, subject to customary adjustments. At that time the buyer made a non-refundable deposit of \$15.0 million to a third party escrow agent and on October 16, 2015, the buyer made an additional non-refundable deposit of \$5.0 million. As of September 30, 2015, ESH REIT classified its portion of the contracted assets and their related liabilities as assets held for sale and liabilities related to assets held for sale, respectively, in the accompanying unaudited condensed consolidated balance sheet. ESH REIT recorded no impairment charge with respect to this anticipated transaction and expects the transaction to close in the fourth quarter of 2015. Upon closing, the existing lease will be amended to reflect the fact that ESH REIT no longer owns these 53 hotel properties. As discussed in Note 2, the results of operations of the assets under contract to be sold are not reported as discontinued operations.

ESH REIT's assets held for sale and liabilities related to assets held for sale consist of the following as of September 30, 2015 (in thousands):

Property and equipment:	
Land and site improvements	\$ 64,903
Building and improvements	92,137
Furniture, fixtures and equipment	20,749
Less: accumulated depreciation	(33,234)
Property and equipment - net	144,555
Rents receivable from Extended Stay America, Inc.	1,275
Deferred rents receivable from Extended Stay America, Inc.	2,231
Goodwill	2,052
Deferred financing costs - net	454
Assets held for sale	\$ 150,567
Mortgage loan payable <sup>(1)</sup>	\$ 86,115
Unearned rental revenues from Extended Stay America, Inc.	8,607
Accounts payable and accrued liabilities	2,277
Liabilities related to assets held for sale	\$ 96,999

(1) As of September 30, 2015, approximately \$86.1 million of ESH REIT's 2012 Mortgage Loan (as defined in Note 6) relates to the assets subject to this purchase and sale agreement and is required to be repaid upon closing. Approximately \$29.3 million, which has an interest rate of 2.9922% as of September 30, 2015, is scheduled to mature on December 1, 2015. If the sale does not close prior to December 1, 2015, ESH REIT has an option to extend the maturity date for two consecutive one-year periods, subject to certain conditions. The remaining approximately \$56.8 million, which has a fixed interest rate of 3.4047%, is scheduled to mature on December 1, 2017.



**Table of Contents****4. NET INCOME PER SHARE**

Basic net income per share is computed by dividing net income available to Class A and Class B common shareholders by the weighted average number of shares of ESH REIT's unrestricted Class A and Class B common stock outstanding, respectively. Diluted net income per share is computed by dividing net income available to Class A and Class B common shareholders, as adjusted for potentially dilutive securities, by the weighted average number of shares of ESH REIT's unrestricted Class A and Class B common stock outstanding, respectively, plus other potentially dilutive securities. Dilutive securities include certain equity-based awards issued under long-term incentive plans (see Note 10).

The calculations of basic and diluted net income per share, including a reconciliation of the numerators and denominators, are as follows:

<b>(in thousands, except per share data)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<i>Numerator:</i>				
Net income	\$ 45,770	\$ 36,340	\$ 75,004	\$ 54,921
Less preferred dividends	(4)		(12)	
Net income available to common shareholders	\$ 45,766	\$ 36,340	\$ 74,992	\$ 54,921
<i>Class A:</i>				
Net income available to common shareholders - basic	\$ 25,201	\$ 20,034	\$ 41,301	\$ 30,284
Less amounts available to Class B shareholders assuming conversion	(22)	(42)	(35)	(76)
Net income available to common shareholders - diluted	\$ 25,179	\$ 19,992	\$ 41,266	\$ 30,208
<i>Class B:</i>				
Net income available to common shareholders - basic	\$ 20,565	\$ 16,306	\$ 33,691	\$ 24,637
Amounts available to Class B shareholders assuming conversion	22	42	35	76
Net income available to common shareholders - diluted	\$ 20,587	\$ 16,348	\$ 33,726	\$ 24,713
<i>Denominator:</i>				
<i>Class A:</i>				
Weighted average number of common shares outstanding - basic and diluted	250,494	250,303	250,437	250,299
<i>Class B:</i>				
Weighted average number of common shares outstanding - basic	204,281	203,593	204,171	203,449
Dilutive securities	404	947	367	1,043

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Weighted average number of common shares outstanding - diluted	204,685	204,540	204,538	204,492
Net income per common share - Class A - basic	\$ 0.10	\$ 0.08	\$ 0.16	\$ 0.12
Net income per common share - Class A - diluted	\$ 0.10	\$ 0.08	\$ 0.16	\$ 0.12
Net income per common share - Class B - basic	\$ 0.10	\$ 0.08	\$ 0.17	\$ 0.12
Net income per common share - Class B - diluted	\$ 0.10	\$ 0.08	\$ 0.16	\$ 0.12

**Table of Contents****5. PROPERTY AND EQUIPMENT**

Net investment in property and equipment as of September 30, 2015, excluding assets held for sale (see Note 3), and December 31, 2014, consists of the following (in thousands):

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Hotel properties:		
Land and site improvements	\$ 1,294,108	\$ 1,352,621
Building and improvements	2,842,758	2,894,730
Furniture, fixtures and equipment	494,567	437,582
<b>Total hotel properties</b>	<b>4,631,433</b>	<b>4,684,933</b>
Undeveloped land parcel	1,675	1,675
<b>Total cost</b>	<b>4,633,108</b>	<b>4,686,608</b>
Less accumulated depreciation	(720,430)	(606,960)
<b>Property and equipment - net</b>	<b>\$ 3,912,678</b>	<b>\$ 4,079,648</b>

During the nine months ended September 30, 2015 and 2014, ESH REIT, using Level 3 unobservable inputs, assessed property and equipment for potential impairment. No impairment charge was recognized during the nine months ended September 30, 2015 or 2014. Quantitative information with respect to unobservable inputs consists of internally developed cash flow models that include the following assumptions, among others: projections of rental revenues, hotel expenditures and related cash flows based on assumed long-term growth rates, demand trends, expected future capital expenditures and estimated discount rates. These assumptions are based on ESH REIT's historical data and experience, existing contractual agreements, ESH REIT's budgets, industry projections and micro and macro general economic projections.

As of September 30, 2015, substantially all of the hotel properties (678 out of 682 hotel properties) are pledged as security for ESH REIT's 2012 Mortgage Loan (as defined in Note 6).



**Table of Contents****6. DEBT**

**Summary** ESH REIT's outstanding debt as of September 30, 2015, excluding liabilities related to assets held for sale (see Note 3), and December 31, 2014, consists of the following (dollars in thousands):

	Stated Amount	Outstanding Principal		Stated Interest Rate	Interest Rate		Maturity Date	Amortization
		September 30, 2015	December 31, 2014		September 30, 2015	December 31, 2014		
<b>Mortgage</b>								
<b>Loan</b>								
2012								
Mortgage								
Loan -								
Component	\$ 350,000	\$	\$ 348,049	LIBOR <sup>(1)</sup> + 2.7872%	N/A	2.2260%	12/1/2015	Interest only
2012								
Mortgage								
Loan -								
Component	350,000	111,157	350,000	3.4047%	3.4047%	3.4047%	12/1/2017	Interest only
2012								
Mortgage								
Loan -								
Component	1,820,000	1,820,000	1,820,000	4.0547%	4.0547%	4.0547%	12/1/2019	Interest only
<b>Term loan</b>								
<b>Facility</b>								
2014 Term								
Loan <sup>(2)</sup>	375,000	365,064	373,320	LIBOR <sup>(1)(3)</sup> + 4.25%	5.00%	5.00%	6/24/2019	Interest only <sup>(4)</sup>
<b>Senior</b>								
<b>Notes</b>								
2025 Notes	500,000	500,000		5.25%	5.25%	N/A	5/1/2025	Interest only
<b>Revolving</b>								
<b>Credit</b>								
<b>Facility</b>								
ESH REIT								
Revolving								
Credit								
Facility	250,000 <sup>(6)</sup>			LIBOR <sup>(1)</sup> + 3.00%	N/A	N/A	11/18/2016 <sup>(5)</sup>	Interest only
Total		\$ 2,796,221	\$ 2,891,369					

(1) London Interbank Offering Rate.

(2)

As of September 30, 2015 and December 31, 2014, the 2014 Term Loan is presented net of an unaccreted discount of approximately \$1.4 million and \$1.7 million, respectively.

- (3) The 2014 Term Loan includes a LIBOR floor of 0.75%.
- (4) There is no scheduled amortization on the 2014 Term Loan; however, subject to certain exceptions, mandatory prepayments are required up to 50% of Excess Cash Flow based on ESH REIT's Consolidated Leverage Ratio, each as defined. ESH REIT made a mandatory prepayment of approximately \$8.5 million during the three months ended March 31, 2015. An additional mandatory prepayment may be required during the three months ending March 31, 2016 based on the calculation of Excess Cash Flow for the year ending December 31, 2015.
- (5) The ESH REIT revolving credit facility is subject to a one-year extension option.
- (6) ESH REIT is able to request to increase the facility to an amount up to \$350.0 million at any time, subject to certain conditions.

On May 15, 2015, using the proceeds from its 2025 Notes (as defined below), ESH REIT repaid \$500.0 million of the outstanding balance under its 2012 Mortgage Loan (as defined below), which consisted of \$318.0 million of Component A and \$182.0 million of Component B. During the nine months ended September 30, 2015, ESH REIT incurred approximately \$2.3 million of debt extinguishment costs in connection with the partial repayment of the 2012 Mortgage Loan, consisting of the write-off of unamortized deferred financing costs of approximately \$1.7 million and other costs of approximately \$0.6 million.

On June 23, 2014, using principally all of the net proceeds from its 2014 Term Loan (as defined below), ESH REIT repaid the remaining outstanding balance of \$365.0 million of its 2012 Mezzanine Loans (as defined below). During the nine months ended September 30, 2014, ESH REIT incurred approximately \$9.4 million of debt extinguishment costs in connection with the repayment of the 2012 Mezzanine Loans, consisting of the write-off of unamortized deferred financing costs of approximately \$5.1 million and prepayment penalties and other costs of approximately \$4.3 million.

Debt extinguishment costs are included as a component of net interest expense in the accompanying unaudited condensed consolidated statements of operations.

### **ESH REIT Mortgage Loan**

On November 30, 2012, ESH REIT entered into a \$2.52 billion mortgage loan comprised of three components (the 2012 Mortgage Loan). On May 15, 2015, ESH REIT repaid \$500.0 million of its 2012 Mortgage Loan using the proceeds from its 2025 Notes, which reduced the monthly required interest-only payments from approximately \$7.9 million to approximately \$6.8 million. Excluding liabilities related to assets held for sale of approximately \$29.3 million of Component A of the 2012 Mortgage Loan and approximately \$56.8 million of Component B of the 2012 Mortgage Loan (see Note 3), principal amounts, interest rates and maturities of components of the 2012 Mortgage Loan are included in the table above.

Substantially all of ESH REIT's hotel properties serve as collateral for the 2012 Mortgage Loan. Under certain limited circumstances, losses related to the 2012 Mortgage Loan and costs incurred by the lenders are guaranteed by certain of the Corporation's subsidiaries up to an aggregate liability of \$252.0 million.

The occurrence of a Mortgage Loan Event of Default, a Debt Yield Trigger Event (a Debt Yield, as defined, of less than 9.0%), or a Guarantor Bankruptcy triggers a Cash Trap Event, each as defined. During the period of a Cash Trap Event, any excess cash flow, after all monthly requirements (including the payment of management fees and operating expenses) are fully funded, is held by the loan service agent as additional collateral for the 2012 Mortgage Loan. As of September 30, 2015, none of these events had occurred.

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**Table of Contents****ESH REIT Term Loan Facility**

On June 23, 2014, ESH REIT entered into a \$375.0 million term loan facility (the "2014 Term Loan"). ESH REIT used principally all of the 2014 Term Loan net proceeds to repay the outstanding balance on its 2012 Mezzanine Loans of \$365.0 million. Subject to certain conditions, the principal amount of the 2014 Term Loan may be increased from time to time up to an amount which would not cause the Consolidated Leverage Ratio, as defined, to exceed 5.25 to 1.0. The 2014 Term Loan matures on June 24, 2019 and bears interest at a rate equal to (i) LIBOR (subject to a floor of 0.75%) plus 4.25%, or (ii) a base rate (determined by reference to the highest of (1) the prime lending rate, (2) the overnight federal funds rate plus 0.5%, or (3) the one-month adjusted LIBOR rate (subject to a floor of 0.75%) plus 1.0%) plus 3.25%. There is no scheduled amortization on the 2014 Term Loan; however, subject to certain exceptions, mandatory prepayments are required up to 50% of Excess Cash Flow, based on ESH REIT's Consolidated Leverage Ratio, each as defined. For the period from July 1, 2014 through December 31, 2014, ESH REIT's Excess Cash Flow, as defined, totaled approximately \$17.1 million, which required ESH REIT to make a mandatory prepayment of approximately \$8.5 million during the three months ended March 31, 2015. An additional mandatory prepayment may be required during the three months ending March 31, 2016 based on the calculation of Excess Cash Flow for the year ending December 31, 2015.

As of September 30, 2015 and December 31, 2014, the outstanding balance on the 2014 Term Loan was approximately \$365.1 million and \$373.3 million, respectively, net of an unaccrued discount of approximately \$1.4 million and \$1.7 million, respectively.

Obligations under the 2014 Term Loan are guaranteed by certain of ESH REIT's existing and future direct and indirect domestic subsidiaries, with certain exceptions, including certain entities that may not be pledged pursuant to the 2012 Mortgage Loan. The 2014 Term Loan is secured by a first-priority security interest in substantially all of the assets of ESH REIT and the guarantors under the facility on a pari passu basis with its obligations under the ESH REIT Revolving Credit Facility (as defined below), with certain exceptions, including certain entities that may not be pledged pursuant to the 2012 Mortgage Loan. The 2014 Term Loan may be repaid prior to its maturity, subject to the following prepayment penalties: (a) on or after June 24, 2015 but prior to December 24, 2015, an amount equal to 2.0% of the aggregate principal amount repaid and (b) on or after December 24, 2015 but prior to June 24, 2016, an amount equal to 1.0% of the aggregate principal amount repaid. Repayments on or after June 24, 2016 require no prepayment penalty.

During a Trigger Event, an Adjusted Trigger Event, a Default or an Event of Default, each as defined, ESH REIT is restricted from making cash distributions, subject to certain exceptions. As of September 30, 2015, none of these events had occurred.

**ESH REIT Senior Notes**

On May 15, 2015, ESH REIT issued \$500.0 million of 5.25% senior notes due in 2025 (the "2025 Notes") under an indenture (the "Indenture") with Deutsche Bank Trust Company Americas, as trustee, at a price equal to 100% of their par value in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. ESH REIT used the proceeds and cash on hand to repay \$500.0 million of the outstanding balance under its 2012 Mortgage Loan. The 2025 Notes mature on May 1, 2025 and bear interest at a fixed rate of 5.25% per annum, payable semi-annually in arrears on May 1 and November 1 of each year, beginning November 1, 2015.

In connection with the issuance of the 2025 Notes, ESH REIT incurred costs of approximately \$11.5 million, inclusive of underwriter, credit rating agency and attorney fees and other costs. These issuance costs are included in deferred financing costs in the accompanying unaudited condensed consolidated balance sheet as of September 30,

2015 and will be amortized to net interest expense over the term of the 2025 Notes.

The 2025 Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis by each of ESH REIT's subsidiaries that guarantee ESH REIT's obligations under the 2014 Term Loan and the ESH REIT Revolving Credit Facility. The 2025 Notes rank equally in right of payment with ESH REIT's existing and future senior unsecured indebtedness, and senior in right of payment to all future subordinated indebtedness, if any. The 2025 Notes are effectively junior to any of ESH REIT's secured indebtedness to the extent of the value of the assets securing such indebtedness.

ESH REIT may redeem the 2025 Notes at any time on or after May 1, 2020, in whole or in part, at a redemption price equal to 102.625% of the principal amount, declining annually to 100% of the principal amount from May 1, 2023 and thereafter, plus accrued and unpaid interest. Prior to May 1, 2020, ESH REIT may redeem the 2025 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a "make-whole" premium, as defined in the Indenture, plus accrued and unpaid interest. Prior to May 1, 2018, subject to certain conditions, ESH REIT may redeem up to 35% of the aggregate principal amount of the 2025 Notes at a redemption price equal to 105.250% of the aggregate principal amount thereof, plus accrued and unpaid interest, with the net cash proceeds from certain equity offerings, provided 65% of the original amount of the principal remains outstanding after the occurrence of each such redemption. Upon a Change of Control, as defined, holders of the 2025 Notes have the right to require ESH REIT to redeem the 2025 Notes at 101% of the principal amount, plus accrued and unpaid interest.

The Indenture contains a number of customary covenants that, subject to certain exceptions, limit ESH REIT's ability and the ability of certain of its subsidiaries to incur additional debt, create certain liens, pay dividends or distributions, make certain investments and other payments, enter into affiliate transactions, sell assets or merge, consolidate or transfer substantially all of their assets, among other things. ESH REIT was in compliance with all covenants set forth in the Indenture as of September 30, 2015.

**Table of Contents****ESH REIT Revolving Credit Facility**

On November 18, 2013, ESH REIT entered into a \$250.0 million revolving credit facility (the ESH REIT Revolving Credit Facility). Subject to the satisfaction of certain criteria, ESH REIT is able to request to increase the facility to an amount up to \$350.0 million at any time. The facility provides for the issuance of up to \$50.0 million of letters of credit as well as borrowings on same day notice, referred to as swingline loans, in an amount up to \$20.0 million. ESH REIT incurs a fee of 0.35% or 0.175% on the unutilized revolver balance, based on the outstanding amount under the facility, and a fee of 3.125% on outstanding letters of credit due on the last day of each quarter. Borrowings under the facility bear interest at a rate equal to an adjusted LIBOR rate or a base rate determined by reference to the highest of (i) the prime lending rate, (ii) the overnight federal funds rate plus 0.5% or (iii) the one-month adjusted LIBOR rate plus 1.0%, plus an applicable margin of 2.00% for base rate loans and 3.00% for LIBOR loans. There is no scheduled amortization under the facility and the facility matures on November 18, 2016, subject to a one-year extension option. As of September 30, 2015 and December 31, 2014, ESH REIT had no letters of credit outstanding under this facility, an outstanding balance drawn of \$0 and borrowing capacity available of \$250.0 million.

ESH REIT's obligations under the ESH REIT Revolving Credit Facility are guaranteed by its existing and future and indirect domestic subsidiaries, with certain exceptions, including certain entities that may not provide guarantees pursuant to the 2012 Mortgage Loan. The ESH REIT Revolving Credit Facility is secured by a first-priority security interest in substantially all of the assets of ESH REIT and the guarantors under the facility, with certain exceptions, including certain entities that may not be pledged pursuant to the 2012 Mortgage Loan.

In order to avoid a Trigger Event or an Adjusted Trigger Event, the ESH REIT Revolving Credit Facility requires a Debt Yield and an Adjusted Debt Yield, each as defined, of at least 11.5%, and, to avoid an Event of Default, a Consolidated Leverage Ratio, as defined, of no more than 9.25 to 1.0 (with the requirement decreasing to no more than 9.0 to 1.0 over the remaining life of the facility) and a Debt Yield or Adjusted Debt Yield of at least 9.0%. The occurrence of a Trigger Event or an Adjusted Trigger Event requires ESH REIT to repay the outstanding facility balance and restricts its ability to draw additional proceeds. As of September 30, 2015, none of these events had occurred.

**ESH REIT Mezzanine Loans**

On November 30, 2012, ESH REIT entered into three mezzanine loans totaling \$1.08 billion (the 2012 Mezzanine Loans). The 2012 Mezzanine Loans would have matured on December 1, 2019, with all outstanding principal and unpaid interest due on that date; however, during 2013, ESH REIT repaid \$715.0 million of the 2012 Mezzanine Loans and on June 23, 2014, using principally all of the net proceeds from its 2014 Term Loan, ESH REIT repaid the remaining outstanding balance of \$365.0 million of the 2012 Mezzanine Loans, which had a weighted-average interest rate of 9.4%.

**Future Maturities of Debt** The future maturities of debt, excluding liabilities related to assets held for sale of approximately \$86.1 million (see Note 3), as of September 30, 2015, are as follows (in thousands):

<b>Years Ending December 31,</b>	
Remainder of 2015	\$
2016	
2017	111,157
2018	

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2019	2,185,064 <sup>(1)</sup>
Thereafter	500,000
<b>Total</b>	<b>\$ 2,796,221</b>

(1) The 2014 Term Loan is presented net of an unaccreted discount of approximately \$1.4 million. Subject to certain exceptions, mandatory prepayments are required up to 50% of Excess Cash Flow based on ESH REIT's Consolidated Leverage Ratio, each as defined. ESH REIT made a mandatory prepayment of approximately \$8.5 million during the three months ended March 31, 2015. An additional mandatory prepayment may be required during the three months ending March 31, 2016 based on the calculation of Excess Cash Flow for the year ending December 31, 2015.

**Fair Value of Debt** As of September 30, 2015, including approximately \$86.1 million in outstanding indebtedness classified as liabilities related to assets held for sale (see Note 3), and December 31, 2014, the estimated fair value of ESH REIT's 2012 Mortgage Loan, 2014 Term Loan and 2025 Notes was approximately \$2.9 billion. The estimated fair values of ESH

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REIT's 2012 Mortgage Loan, 2014 Term Loan and 2025 Notes are determined by comparing current borrowing rates and risk spreads offered in the market to the stated interest rates and spreads on ESH REIT's 2012 Mortgage Loan, 2014 Term Loan and 2025 Notes (Level 2 fair value measures) or quoted market prices (Level 1 fair value measures), when available.

**7. INCOME TAXES**

ESH REIT has elected to be taxed and expects to continue to qualify as a real estate investment trust ( REIT ) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code ). A REIT is a legal entity that holds real estate assets and is generally not subject to federal and state income taxes. In order to maintain qualification as a REIT, ESH REIT is required to distribute at least 90% of its taxable income, excluding net capital gains, to its shareholders each year. In addition, ESH REIT must meet a number of complex organizational and operational requirements. If ESH REIT were to fail to qualify as a REIT in any taxable year, it would be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and generally would be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which it lost its REIT qualification. Even in qualifying as a REIT, ESH REIT may be subject to state and local taxes in certain jurisdictions, and is subject to federal income and excise taxes on undistributed income.

In 2014, ESH REIT distributed more than 100% of its taxable income and therefore incurred no federal income tax. In the future, ESH REIT intends to distribute approximately 95% of its taxable income, excluding net capital gains. Accordingly, ESH REIT is expected to be subject to income taxes on approximately 5% of its future taxable income. As a result, ESH REIT has recorded deferred tax assets and liabilities to reflect the fact that an estimated 5% of ESH REIT's future taxable income is expected to be subject to tax. As of September 30, 2015 and December 31, 2014, the majority of the deferred tax assets on the accompanying unaudited condensed consolidated balance sheets relate to net operating loss carryforwards that expire in 2032.

ESH REIT recorded a provision for state and foreign income taxes of approximately \$0.4 million for the three months ended September 30, 2015, an effective rate of approximately 0.9%, as compared with a benefit of approximately \$1.9 million for the three months ended September 30, 2014, an effective rate of approximately (5.4)%. ESH REIT recorded a provision for state and foreign income taxes of approximately \$0.6 million for the nine months ended September 30, 2015, an effective rate of approximately 0.8%, as compared with a benefit of approximately \$1.3 million for the nine months ended September 30, 2014, an effective rate of approximately (2.4)%. ESH REIT's effective rate differs from the federal statutory rate of 35% due to its status as a REIT under the provisions of the Code.

ESH REIT's income tax returns for the years 2012 to present are subject to examination by the Internal Revenue Service and other taxing authorities.

**8. RELATED PARTY TRANSACTIONS**

**Leases** ESH REIT's revenues are derived from four leases. The counterparty to each lease agreement is a subsidiary of the Corporation. For the three months ended September 30, 2015 and 2014, ESH REIT recognized fixed rental revenues of approximately \$123.1 million and \$123.4 million, respectively. For the nine months ended September 30, 2015 and 2014, ESH REIT recognized fixed rental revenues of approximately \$369.5 million and \$370.7 million, respectively. Approximately \$38.5 million, excluding approximately \$2.2 million of assets held for sale (see Note 3), and \$30.9 million is recorded as deferred rents receivable in the accompanying unaudited condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014, respectively. Deferred rents receivable are expected to be received in cash by October 2018.

Due to the fact that certain percentage rental revenue thresholds specified in the leases were achieved during the second and third quarters of 2015 and the third quarter of 2014, ESH REIT recognized percentage rental revenues of approximately \$33.7 million and \$16.2 million during the three months ended September 30, 2015 and 2014, respectively, and approximately \$34.1 million and \$16.2 million during the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015, unearned rental revenues related to percentage rent, as defined, were approximately \$145.9 million, excluding approximately \$8.6 million related to assets held for sale (see Note 3), of which approximately \$131.4 million had been received and approximately \$21.8 million, excluding approximately \$1.3 million related to assets held for sale (see Note 3), were outstanding and included as rents receivable on the accompanying unaudited condensed consolidated balance sheet. As of December 31, 2014, because all percentage rental revenue thresholds had been achieved for the year, no unearned contingent rental revenues existed, and approximately \$2.0 million was outstanding and included as rents receivable on the accompanying unaudited condensed consolidated balance sheet.

As of December 31, 2014, ESH REIT recorded unearned rental revenues related to prepaid January 2015 fixed minimum rents of approximately \$28.1 million. As of September 30, 2015, ESH REIT had not received fixed minimum rent payments related to future periods and therefore had no unearned rental revenues related to future minimum rents.

**Distributions** The Corporation owns all of the Class A common stock of ESH REIT, which represents approximately 55% of the outstanding shares of common stock of ESH REIT. Therefore, approximately 55% of ESH REIT's distributions are paid to the



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Corporation. Distributions of approximately \$37.6 million and \$37.5 million for the three months ended September 30, 2015 and 2014, respectively, and approximately \$112.7 million and \$95.1 million for the nine months ended September 30, 2015 and 2014, respectively, were made from ESH REIT to the Corporation.

**Issuance of Common Stock** In March 2015, ESH REIT issued 190,089 shares of Class A common stock to the Corporation for consideration of approximately \$1.7 million. Also, ESH REIT issued, and was compensated approximately \$0.7 million for, 96,703 shares of Class B common stock, each of which was attached to a share of common stock of the Corporation to form a Paired Share, to settle vested restricted stock units.

As of September 30, 2015, 117,045 restricted stock units issued by the Corporation have vested but have not been settled. In March 2016, in accordance with the awards settlement provisions, ESH REIT expects to issue and be compensated for 117,045 shares of Class B common stock, each of which will be attached to a share of common stock of the Corporation to form a Paired Share. As of September 30, 2015, ESH REIT has recognized a receivable of approximately \$0.8 million, which is included within due to Extended Stay America, Inc. on the accompanying unaudited condensed consolidated balance sheet.

**Overhead Costs** ESA Management incurs costs under a services agreement with ESH REIT for certain overhead services performed on its behalf. The services relate to executive management, accounting, financial analysis, training and technology. For the three months ended September 30, 2015 and 2014, ESH REIT incurred expense of approximately \$2.2 million and \$1.6 million, respectively, and for the nine months ended September 30, 2015 and 2014, ESH REIT incurred expense of approximately \$7.2 million and \$5.3 million, respectively, related to this agreement, which is included in general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations.

**Working Capital** As of September 30, 2015, ESH REIT had an outstanding net payable of approximately \$121.7 million due to the Corporation and its subsidiaries. This amount consists of monthly hotel receipts deposited into ESH REIT's cash management accounts ( CMAs ) which were swept into the Corporation's unrestricted cash accounts at the beginning of October 2015, as specified by the agreements governing the 2012 Mortgage Loan and the CMAs, and certain disbursements made by ESA Management on behalf of ESH REIT in the ordinary course of business. As of December 31, 2014, ESH REIT had an outstanding net receivable of approximately \$1.2 million due from the Corporation and its subsidiaries. This amount included a receivable due from the Operating Lessees, consisting of certain disbursements ESH REIT made on their behalf, offset by a payable due to ESA Management, consisting of certain disbursements made on behalf of ESH REIT in the ordinary course of business. All outstanding balances are repaid within 60 days.

## **9. COMMITMENTS AND CONTINGENCIES**

**Lease Commitments** Rent expense on ground leases is recognized on a straight-line basis and was approximately \$0.4 million for each of the three months ended September 30, 2015 and 2014, and approximately \$1.1 million for each of the nine months ended September 30, 2015 and 2014. Ground lease expense is included in hotel operating expenses in the accompanying unaudited condensed consolidated statements of operations.

**Other Commitments** ESH REIT has a commitment to make quarterly payments in lieu of taxes to the owner of the land on which one of its properties is located. The cost related to this commitment was approximately \$0.1 million for each of the three months ended September 30, 2015 and 2014, and approximately \$0.2 million for each of the nine months ended September 30, 2015 and 2014, and is included in hotel operating expenses in the accompanying unaudited condensed consolidated statements of operations.

**Legal Contingencies** ESH REIT is not a party to any litigation or claims, other than routine matters arising in the ordinary course of business that are incidental to the operation of the business of ESH REIT. ESH REIT believes that the results of all claims and litigation, individually or in the aggregate, will not have a material adverse effect on its business or unaudited condensed consolidated financial statements.

## **10. EQUITY-BASED COMPENSATION**

The Corporation and ESH REIT each maintain a long-term incentive plan ( LTIP ), as amended and approved by their shareholders. Under the LTIPs, the Corporation and ESH REIT may issue to eligible employees or directors restricted stock (i.e., Paired Share) awards, restricted stock units or other equity-based awards with service, performance or market vesting conditions. The aggregate number of Paired Shares that may be issued under the LTIPs shall not exceed 8.0 million, of which no more than 4.0 million may be granted as incentive stock options. Each of the Corporation's and ESH REIT's LTIP has a share reserve of an equivalent number of shares of common stock of the Corporation and Class B common stock of ESH REIT. As of September 30, 2015, 6,424,148 Paired Shares were available for future issuance under the LTIPs.

Equity-based compensation cost is recognized by amortizing the grant-date fair value of equity-based awards, less estimated forfeitures, on a straight-line basis over the requisite service period of each award. A portion of the grant-date fair value of all equity-based awards is allocated to a share of common stock of the Corporation and a portion is allocated to a share of Class B common stock of ESH REIT.

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Although ESH REIT recognizes equity-based compensation cost of awards under its LTIP based on the fair value of a Paired Share on the grant date, the cost related to the portion of the grant-date fair value with respect to a share of common stock of the Corporation is recorded as a payable due to the Corporation. ESH REIT will have to pay more or less for a share of the Corporation common stock than it would have otherwise paid at the time of grant as a result of regular market changes in the value of a Paired Share between the time of grant and the time of settlement. An increase in the value allocated to a share of common stock of the Corporation due to market changes in the value of a Paired Share between the time of grant and the time of settlement is recorded as a distribution to the Corporation. A decrease in the value allocated to a share of common stock of the Corporation due to market changes in the value of a Paired Share between the time of grant and the time of settlement is recorded as additional paid in capital from the Corporation. Cost related to the portion of the grant-date fair value with respect to a share of Class B common stock of ESH REIT is recorded as an increase to additional paid in capital, a component of equity.

As prescribed by the services agreement described in Note 8, ESH REIT and its subsidiaries reimburse the Corporation for expenses related to its employees or directors that participate in the Corporation's LTIP. Such charges were approximately \$0.4 million and \$0.1 million for the three months ended September 30, 2015 and 2014, respectively, and approximately \$1.1 million and \$0.5 million for the nine months ended September 30, 2015 and 2014, respectively, and are included in general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations.

Total recognized equity-based compensation for awards issued under ESH REIT's LTIP was approximately \$0.3 million (which includes approximately \$0.2 million paid or due to the Corporation) and \$0.4 million (which includes approximately \$0.2 million paid or due to the Corporation) for the three months ended September 30, 2015 and 2014, respectively, and approximately \$1.0 million (which includes approximately \$0.6 million paid or due to the Corporation) and \$1.1 million (which includes approximately \$0.5 million paid or due to the Corporation) for the nine months ended September 30, 2015 and 2014, respectively, and is included in general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations.

As of September 30, 2015, there was approximately \$0.3 million of unrecognized compensation cost related to outstanding equity-based awards, which is expected to be recognized subsequent to September 30, 2015 over a weighted-average period of approximately 0.6 years. Total unrecognized compensation cost will be adjusted for actual forfeitures.

ESH REIT's restricted stock award and restricted stock unit (collectively, RSA/RSU) activity during the nine months ended September 30, 2015, was as follows:

	<b>Number of RSAs/RSUs (in thousands)</b>	<b>Weighted- Average Grant-Date Fair Value per RSA/RSU</b>
Outstanding RSAs/RSUs - January 1, 2015	600	\$ 10.38
RSAs/RSUs granted in 2015	8	\$ 19.74
RSAs/RSUs settled in 2015	(281)	\$ 8.92
RSAs/RSUs forfeited in 2015	(20)	\$ 9.34
<b>Outstanding RSAs/RSUs - September 30, 2015</b>	<b>307</b>	<b>\$ 12.01</b>

Vested RSAs/RSUs - September 30, 2015	1	\$	23.14
Nonvested RSAs/RSUs - September 30, 2015	306	\$	11.97

ESH REIT granted 7,552 service-based awards during the nine months ended September 30, 2015 with a grant-date fair value per award of \$19.74. The grant-date fair value of awards with service vesting conditions is based on the closing price of a Paired Share on the date of grant. Service-based awards vest over a period of two to four years, subject to the grantee's continued employment or service.

For all LTIP awards granted by the Corporation, ESH REIT will receive compensation for the fair value of the Class B shares on the date of issuance of such Class B shares by ESH REIT. As of September 30, 2015, the Corporation had granted a total of 1,513,095 restricted stock (i.e., Paired Share) units, of which 188,636 were forfeited or settled, under which ESH REIT is counterparty and is expected to issue, and be compensated in cash for, 1,324,459 shares of Class B common stock of ESH REIT in future periods.

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**11. SUBSEQUENT EVENTS**

On October 27, 2015, the Board of Directors of ESH REIT declared a cash distribution of \$0.15 per share for the third quarter of 2015 on its Class A and Class B common stock. The distribution is payable on November 24, 2015 to shareholders of record as of November 10, 2015.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc. included elsewhere in this combined quarterly report on Form 10-Q.

#### **Background and Certain Defined Terms**

On November 18, 2013, Extended Stay America, Inc. (the *Corporation*) and its controlled subsidiary, ESH Hospitality, Inc. ( *ESH REIT* ), completed their initial public offering (the *Offering*) of Paired Shares (as defined below). Prior to the Offering, we completed a series of transactions which restructured and reorganized the existing business. Unless otherwise indicated, the context requires:

*Company.* The term *Company* refers to the Corporation, ESH REIT and their subsidiaries considered as a single, consolidated enterprise.

*Corporation.* The term *Corporation* refers to Extended Stay America, Inc., a Delaware corporation, and its subsidiaries (excluding ESH REIT and its subsidiaries), which include the Operating Lessees (as defined below), ESH Strategies (as defined below) and ESA Management (as defined below). The Corporation controls ESH REIT through its ownership of ESH REIT's Class A common stock, which represents approximately 55% of the outstanding common stock of ESH REIT.

*ESH REIT.* The term *ESH REIT* refers to ESH Hospitality, Inc., a Delaware corporation that has elected to be taxed as a real estate investment trust ( *REIT* ), and its subsidiaries. ESH REIT is a majority-owned subsidiary of the Corporation, which leases its hotel properties to the Operating Lessees.

*Operating Lessees.* The term *Operating Lessees* refers to several entities that each lease a group of hotels from ESH REIT and, as stipulated under the respective lease agreement, operate the hotels.

*ESH Strategies.* The term *ESH Strategies* refers to ESH Hospitality Strategies LLC and its subsidiaries, which own the intellectual property related to our business.

*ESA Management.* The term *ESA Management* refers to ESA Management LLC and its subsidiaries, which manage the leased hotel properties on behalf of the Operating Lessees.

*Paired Shares.* The term *Paired Shares* means the shares of common stock, par value \$0.01 per share, of the Corporation together with the shares of Class B common stock, par value \$0.01 per share, of ESH REIT, which are attached and trade as a single unit.

*Sponsors.* The term *Sponsors* collectively refers to Centerbridge Partners, L.P., Paulson & Co. Inc. and the Blackstone Group, L.P. and their funds or affiliates.

For ease of presentation:

When we refer to our ownership of hotel properties, we are referring to the hotel properties owned by ESH REIT.

When we refer to the management and operation of our hotels, we are referring to the management of hotels by ESA Management and the operation of hotels by the Operating Lessees.

When we refer to our brands, we are referring to intellectual property related to our business owned by ESH Strategies.

The following are definitions of certain key lodging operating metrics used in this combined quarterly report on Form 10-Q:

*ADR* or *average daily rate* means hotel room revenues divided by total number of rooms sold in a given period.

*Extended stay market* means the market of hotels with a fully equipped kitchenette in each guest room, which accept reservations and do not require a lease, as defined by The Highland Group.

*Mid-price extended stay segment* means the segment of the extended stay market that generally operates at a daily rate between \$45 and \$95, as defined by The Highland Group.

*Occupancy* or *occupancy rate* means the total number of rooms sold in a given period divided by the total number of rooms available during that period.

*RevPAR* or *revenue per available room* means the product of average daily room rate charged and the average daily occupancy achieved for a hotel or group of hotels in a given period. RevPAR does not include other ancillary revenues, such as food and beverage revenues, or parking, pet, telephone or other guest service revenues.

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When used in connection with our company-wide initiatives to reinvest in or renovate our hotel properties in this combined quarterly report on Form 10-Q (in all cases, unless the context otherwise requires or where otherwise indicated) the term **hotel renovation** refers to upgrades that typically include remodeling of common areas, new paint, carpet, signage, tile or vinyl flooring and counters in bathrooms and kitchens, as well as the refurbishment of furniture, replacement of aged mattresses and installation of new flat screen televisions, artwork, lighting and bedspreads.

The following discussion may contain forward-looking statements about our market, analysis, future trends, the demand for our services, capital expenditures and other future results, including distributions, among other topics. Actual results may differ materially from those suggested by our forward-looking statements for various reasons, including those discussed in **Risk Factors** in our combined annual report on Form 10-K filed with the U.S. Securities and Exchange Commission ( **SEC** ) on February 26, 2015, and **Cautionary Note Regarding Forward-Looking Statements** contained herein. Those sections expressly qualify any subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf.

## **Overview**

We are the largest integrated owner/operator of company-branded hotels in North America. Our business operates in the extended stay lodging industry, and as of September 30, 2015, we own and operate 682 hotel properties comprising 76,000 rooms located in 44 states across the U.S. and in Canada. We own and operate 632 of our hotels under our core brand, Extended Stay America, which serves the mid-price extended stay segment, and accounts for approximately half of the segment by number of rooms in the U.S. In addition, we own and operate three Extended Stay Canada hotels and 47 hotels in the economy extended stay segment under the Crossland Economy Studios brand.

On September 18, 2015, subsidiaries of the Company entered into a purchase and sale agreement to sell a portfolio of 53 hotel properties, 47 of which operate under the Crossland Economy Studios brand and six of which operate under the Extended Stay America brand, and certain intellectual property of Crossland Economy Studios for \$285.0 million, subject to customary adjustments. The Company expects the transaction to close in the fourth quarter of 2015. Upon closing, the Company will no longer own, operate or manage these hotel properties, nor will it own certain intellectual property of Crossland Economy Studios.

Our extended stay hotels are designed to provide an affordable and attractive alternative to traditional lodging or apartment accommodations and are targeted toward self-sufficient, value-conscious guests. Our hotels feature fully-furnished rooms with in-room kitchens, complimentary grab-and-go breakfast, free WiFi, flat screen TVs and limited housekeeping service, which is typically provided on a weekly basis. Our guests include business travelers, professionals on temporary work or training assignments, persons relocating, temporarily displaced or purchasing a home and anyone else in need of temporary housing. Our guests generally rent accommodations on a weekly or longer term basis. For the twelve months ended September 30, 2015, approximately 31.9%, 23.8%, and 44.3% of our revenues were derived from guests with stays from 1-6 nights, from 7-29 nights and over 30 nights, respectively.



**Table of Contents****Understanding Our Results of Operations The Company**

**Revenues and Expenses.** The Company's revenues are derived from the operation of our hotels. Hotel operating expenses account for the largest portion of the Company's operating expenses and reflect ongoing operating expenses associated with the ownership and management of our hotels.

The following table presents the components of the Company's revenues as a percentage of our total revenues for the nine months ended September 30, 2015:

	<b>Percentage of 2015 Year to Date Revenues</b>
<i>Room revenues.</i> Room revenues are driven primarily by ADR and occupancy. Pricing policy and customer mix are significant drivers of ADR. Due to our relatively high occupancy levels, our primary focus is on increasing RevPAR by increasing ADR. For the nine months ended September 30, 2015, we experienced RevPAR growth of approximately 6.5% compared to the nine months ended September 30, 2014, due to a shift in our customer mix to a greater number of high yield, shorter-stay guests as well as the collective impact of our hotel reinvestment program, upgraded operational practices, investments in marketing and focus on service excellence.	98.6%
<i>Other hotel revenues.</i> Other hotel revenues include ancillary revenues such as laundry revenues, vending commissions, additional housekeeping fees and pet charges. Occupancy and customer mix, as well as the number and percentage of guests that have longer-term stays, are the key drivers of other hotel revenues.	1.4%

The following table presents the components of the Company's operating expenses as a percentage of our total operating expenses for the nine months ended September 30, 2015:

	<b>Percentage of 2015 Year to Date Operating Expenses</b>
<i>Hotel operating expenses.</i> Hotel operating expenses have both fixed and variable components. Operating expenses that are relatively fixed include personnel expense, real estate tax expense and property insurance premium expense. Occupancy is a key driver of expenses that have a high degree of variability such as room supplies expense. Other variable	65.7%

expenses include marketing and reservation costs, property insurance claims expense and repairs and maintenance expense. We experienced an increase in hotel operating expenses of approximately \$2.3 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, due mainly to increases in reservation costs as well as hotel personnel expense and the allowance for uncollectible accounts receivable. The increase was partially offset by a decrease in marketing costs, property insurance claims expense and repairs and maintenance expense.

*General and administrative expenses.* General and administrative expenses include expenses associated with corporate overhead. These costs consist primarily of compensation expense of our corporate staff and professional fees, including consulting, audit, tax and legal fees. 10.8%

*Depreciation and amortization.* Depreciation and amortization is a non-cash charge that relates primarily to the acquisition and related usage of hotels and other property and equipment. 22.2%

*Impairment of long-lived assets.* Impairment of long-lived assets is a non-cash charge recognized when events and circumstances indicate that the carrying value of an asset may not be recoverable. 1.3%

**Table of Contents****Understanding Our Results of Operations ESH REIT**

**Revenues.** ESH REIT's rental revenues are generated from leasing its hotel properties to the Operating Lessees. Rental revenues consist of fixed minimum rental payments recognized on a straight-line basis over the lease terms plus specified percentages paid by the Operating Lessees on hotel revenues over designated thresholds.

**Expenses.** The following table presents the components of ESH REIT's operating expenses as a percentage of ESH REIT's total operating expenses for the nine months ended September 30, 2015:

	<b>Percentage of 2015 Year to Date Operating Expenses</b>
<i>Hotel operating expenses.</i> ESH REIT's hotel operating expenses include expenses directly related to ownership of the hotels, such as real estate tax expense and property insurance premium and claims expense.	29.0%
<i>General and administrative expenses.</i> General and administrative expenses include overhead expenses incurred directly by ESH REIT and administrative service costs reimbursable to ESA Management.	5.4%
<i>Depreciation and amortization.</i> Depreciation and amortization is a non-cash charge that relates primarily to the acquisition and related usage of hotels and other property and equipment.	65.6%

**Results of Operations**

Results of Operations discusses each of the Company's and ESH REIT's unaudited condensed consolidated financial statements, each of which have been prepared in accordance with generally accepted accounting principles in the U.S. ( U.S. GAAP ). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, including those relating to property and equipment, goodwill, income taxes, equity-based compensation, revenue recognition, consolidation policies and contingencies. We base our estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

**Table of Contents****Results of Operations The Company*****Comparison of Three Months Ended September 30, 2015 and September 30, 2014***

As of September 30, 2015 and 2014, we owned and operated 682 hotels consisting of 76,000 rooms. On September 18, 2015, subsidiaries of the Company entered into a purchase and sale agreement to sell a portfolio of 53 hotel properties, 47 of which operate under the Crossland Economy Studios brand and six of which operate under the Extended Stay America brand, and certain intellectual property of Crossland Economy Studios. The Company expects the transaction to close in the fourth quarter of 2015.

The following table presents our consolidated results of operations for the three months ended September 30, 2015 and 2014, including the amount and percentage change in these results between the periods (in thousands):

	<b>Three Months Ended September 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>Change (\$)</b>	<b>Change (%)</b>
<b>Revenues:</b>				
Room revenues	\$ 355,445	\$ 333,970	\$ 21,475	6.4%
Other hotel revenues	5,071	4,583	488	10.6%
<b>Total revenues</b>	<b>360,516</b>	<b>338,553</b>	<b>21,963</b>	<b>6.5%</b>
<b>Operating expenses:</b>				
Hotel operating expenses	159,049	159,125	(76)	0.0%
General and administrative expenses	24,373	19,579	4,794	24.5%
Depreciation and amortization	52,268	47,124	5,144	10.9%
Impairment of long-lived assets	9,011		9,011	n/m
Gain on sale of hotel properties		(864)	864	n/m
<b>Total operating expenses</b>	<b>244,701</b>	<b>224,964</b>	<b>19,737</b>	<b>8.8%</b>
Other income	3	1	2	200.0%
<b>Income from operations</b>	<b>115,818</b>	<b>113,590</b>	<b>2,228</b>	<b>2.0%</b>
Other non-operating expense	1,143	1,058	85	8.0%
Interest expense, net	35,157	33,377	1,780	5.3%
<b>Income before income tax expense</b>	<b>79,518</b>	<b>79,155</b>	<b>363</b>	<b>0.5%</b>
Income tax expense	21,293	18,970	2,323	12.2%
<b>Net income</b>	<b>58,225</b>	<b>60,185</b>	<b>(1,960)</b>	<b>(3.3)%</b>
Net income attributable to noncontrolling interests <sup>(1)</sup>	(20,569)	(16,310)	(4,259)	26.1%
<b>Net income attributable to common shareholders</b>	<b>\$ 37,656</b>	<b>\$ 43,875</b>	<b>\$ (6,219)</b>	<b>(14.2)%</b>

n/m = not meaningful

- (1) Noncontrolling interests in Extended Stay America, Inc. include approximately 45% of ESH REIT's common equity and 125 shares of ESH REIT preferred stock.

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The following table presents key operating metrics, including occupancy, ADR, RevPAR and renovation displacement data for our hotels for the three months ended September 30, 2015 and 2014:

	<b>Three Months Ended</b>		<b>Change</b>
	<b>September 30,</b>		
	<b>2015</b>	<b>2014</b>	
Number of hotels	682	682	
Number of rooms	76,000	76,000	
Occupancy	78.3%	79.3%	(100) bps
ADR	\$ 64.95	\$ 60.14	8.0%
RevPAR	\$ 50.83	\$ 47.72	6.5%
Hotel Inventory (as of September 30) <sup>(1)</sup> :			
Renovated Extended Stay America <sup>(2)</sup>	413	330	83
Unrenovated Extended Stay America and other <sup>(3)</sup>	222	305	(83)
Crossland Economy Studios <sup>(3)</sup>	47	47	
Total number of hotels	682	682	
Renovation Displacement Data (in thousands, except percentages) <sup>(1)</sup> :			
Total available room nights	6,993	6,999	(6)
Room nights displaced from renovation	128	26	102
% of available room nights displaced	1.8%	0.4%	140 bps

(1) See Liquidity and Capital Resources Capital Expenditures Hotel Reinvestment Program for a discussion of our phased capital investment program across our portfolio.

(2) Includes three Extended Stay Canada-branded hotels.

(3) On September 18, 2015, subsidiaries of the Company entered into a purchase and sale agreement to sell a portfolio of 53 hotel properties, six of which are included in Unrenovated Extended Stay America and other and 47 of which are included in Crossland Economy Studios. The Company expects the transaction to close in the fourth quarter of 2015.

*Room revenues.* Room revenues increased by approximately \$21.5 million, or 6.4%, to approximately \$355.4 million for the three months ended September 30, 2015 compared to approximately \$334.0 million for the three months ended September 30, 2014. The increase in room revenues was due to an 8.0% increase in ADR partially offset by a 100 bps decrease in occupancy, resulting in a 6.5% increase in RevPAR, which was primarily a result of a shift in our customer mix to a greater number of high yield, shorter-stay guests as well as the collective impact of our hotel reinvestment program, upgraded operational practices, investments in marketing and focus on service excellence.

*Other hotel revenues.* Other hotel revenues increased by approximately \$0.5 million, or 10.6%, to approximately \$5.1 million for the three months ended September 30, 2015 compared to approximately \$4.6 million for the three months ended September 30, 2014.

*Hotel operating expenses.* Hotel operating expenses decreased by approximately \$0.1 million to approximately \$159.0 million for the three months ended September 30, 2015 compared to approximately \$159.1 million for the three months ended September 30, 2014. Adjusted hotel operating expenses, which exclude loss on disposal of assets, were approximately \$157.8 million and \$158.9 million for the three months ended September 30, 2015 and 2014,

respectively, a decrease of approximately \$1.1 million. The decrease was primarily driven by a decrease in marketing costs of approximately \$3.1 million, mainly due to a decrease in television advertising, as well as a decrease in repairs and maintenance expense of approximately \$1.2 million and property insurance claims expense of approximately \$0.8 million due to fewer and less severe insurable events than in the prior year. These decreases were partially offset by an increase in reservation costs of approximately \$2.4 million, mainly due to the system-wide implementation of our central reservations call center and an increase in sales volume, as well as an increase in hotel personnel expense of approximately \$2.3 million.

Hotel Operating Margin (as defined in Non-GAAP Financial Measures ) increased to 56.2% for the three months ended September 30, 2015 compared to 53.1% for the three months ended September 30, 2014. Total room and other hotel revenues increased by approximately \$22.0 million for the three months ended September 30, 2015 compared to the three months ended September 30, 2014, while Hotel Operating Profit (as defined in Non-GAAP Financial Measures ) increased by approximately \$23.1 million for the same period, which represents an operating margin flow-through, defined as the change in Hotel Operating Profit divided by the change in total room and other hotel revenues, of approximately 105.2%.

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*General and administrative expenses.* General and administrative expenses increased by approximately \$4.8 million, or 24.5%, to approximately \$24.4 million for the three months ended September 30, 2015 compared to approximately \$19.6 million for the three months ended September 30, 2014. Adjusted general and administrative expenses, which exclude non-cash equity-based compensation and public company transition costs, including costs incurred in connection with the August 2014 secondary offering, were approximately \$21.4 million and \$16.5 million for the three months ended September 30, 2015 and 2014, respectively, an increase of approximately \$4.9 million. The increase was mainly driven by increases in personnel expense of approximately \$3.9 million partly attributable to an increase in short term incentive compensation during the three months ended September 30, 2015 due to our improved operating performance as well as ongoing costs related to our new revenue management system of approximately \$0.4 million.

*Depreciation and amortization.* Depreciation and amortization increased by approximately \$5.1 million, or 10.9%, to approximately \$52.3 million for the three months ended September 30, 2015 compared to approximately \$47.1 million for the three months ended September 30, 2014. The increase in depreciation and amortization was primarily due to an increase in investment in hotel assets as a result of our hotel reinvestment program.

*Impairment of long-lived assets.* Asset impairments are recorded as required based on an evaluation of property and equipment and intangible assets for impairment. During the three months ended September 30, 2015, we recognized an impairment charge related to property and equipment of approximately \$9.0 million. No impairment charge was recognized during the three months ended September 30, 2014.

*Gain on sale of hotel properties.* During the three months ended September 30, 2014, we recognized a gain on sale of hotel properties of approximately \$0.9 million, which related to the sale of our two Hometown Inn-branded hotels in July 2014.

*Other non-operating expense.* During each of the three months ended September 30, 2015 and 2014, we recognized non-cash foreign currency transaction losses of approximately \$1.1 million, mainly related to the appreciation of the U.S. dollar versus the Canadian dollar at one of our Canadian currency-based entities which has U.S. dollar denominated debt.

*Interest expense, net.* Net interest expense increased by approximately \$1.8 million, or 5.3%, to approximately \$35.2 million for the three months ended September 30, 2015 compared to approximately \$33.4 million for the three months ended September 30, 2014. In May 2015, ESH REIT repaid \$500.0 million of its 2012 Mortgage Loan (as defined in Liquidity and Capital Resources ) using the net proceeds from the issuance of its 2025 Notes (as defined in Liquidity and Capital Resources ), increasing the Company's weighted-average interest rate from approximately 4.0% to approximately 4.4%.

*Income tax expense.* Our effective income tax rate increased by approximately 2.8 percentage points to approximately 26.8% for the three months ended September 30, 2015 compared to approximately 24.0% for the three months ended September 30, 2014, primarily due to discrete provision to return adjustments recognized upon the filing of tax returns. The Company's effective tax rate is lower than the federal statutory rate of 35% due to ESH REIT's status as a REIT under the provisions of the Code during these periods. In the future, ESH REIT intends to distribute approximately 95% of its taxable income, excluding net capital gains. ESH REIT will incur federal and state income tax at statutory rates on its taxable income not distributed.



**Table of Contents****Comparison of Nine Months Ended September 30, 2015 and September 30, 2014**

As of September 30, 2015 and 2014, we owned and operated 682 hotels consisting of 76,000 rooms. On September 18, 2015, subsidiaries of the Company entered into a purchase and sale agreement to sell a portfolio of 53 hotel properties, 47 of which operate under the Crossland Economy Studios brand and six of which operate under the Extended Stay America brand, and certain intellectual property of Crossland Economy Studios. The Company expects the transaction to close in the fourth quarter of 2015.

The following table presents our consolidated results of operations for the nine months ended September 30, 2015 and 2014, including the amount and percentage change in these results between the periods (in thousands):

	<b>Nine Months Ended September 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>Change (\$)</b>	<b>Change (%)</b>
<b>Revenues:</b>				
Room revenues	\$ 974,127	\$ 917,286	\$ 56,841	6.2%
Other hotel revenues	14,291	13,497	794	5.9%
<b>Total revenues</b>	<b>988,418</b>	<b>930,783</b>	<b>57,635</b>	<b>6.2%</b>
<b>Operating expenses:</b>				
Hotel operating expenses	450,543	448,253	2,290	0.5%
General and administrative expenses	73,909	64,227	9,682	15.1%
Depreciation and amortization	151,980	139,401	12,579	9.0%
Impairment of long-lived assets	9,011		9,011	n/m
Gain on sale of hotel properties		(864)	864	n/m
<b>Total operating expenses</b>	<b>685,443</b>	<b>651,017</b>	<b>34,426</b>	<b>5.3%</b>
Other income	44	272	(228)	(83.8)%
<b>Income from operations</b>	<b>303,019</b>	<b>280,038</b>	<b>22,981</b>	<b>8.2%</b>
Other non-operating expense	2,035	2,837	(802)	(28.3)%
Interest expense, net	101,975	116,464	(14,489)	(12.4)%
<b>Income before income tax expense</b>	<b>199,009</b>	<b>160,737</b>	<b>38,272</b>	<b>23.8%</b>
Income tax expense	48,119	38,187	9,932	26.0%
<b>Net income</b>	<b>150,890</b>	<b>122,550</b>	<b>28,340</b>	<b>23.1%</b>
Net income attributable to noncontrolling interests <sup>(1)</sup>	(33,703)	(24,649)	(9,054)	36.7%
<b>Net income attributable to common shareholders</b>	<b>\$ 117,187</b>	<b>\$ 97,901</b>	<b>\$ 19,286</b>	<b>19.7%</b>

n/m = not meaningful

- (1) Noncontrolling interests in Extended Stay America, Inc. include approximately 45% of ESH REIT's common equity and 125 shares of ESH REIT preferred stock.

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The following table presents key operating metrics, including occupancy, ADR, RevPAR and renovation displacement data for our hotels for the nine months ended September 30, 2015 and 2014, respectively:

	<b>Nine Months Ended</b>		<b>Change</b>
	<b>September 30,</b>		
	<b>2015</b>	<b>2014</b>	
Number of hotels	682	682	
Number of rooms	76,000	76,000	
Occupancy	75.3%	76.1%	(80) bps
ADR	\$ 62.38	\$ 57.95	7.6%
RevPAR	\$ 46.95	\$ 44.09	6.5%
Hotel Inventory (as of September 30) <sup>(1)</sup> :			
Renovated Extended Stay America <sup>(2)</sup>	413	330	83
Unrenovated Extended Stay America and other <sup>(3)</sup>	222	305	(83)
Crossland Economy Studios <sup>(3)</sup>	47	47	
Total number of hotels	682	682	
Renovation Displacement Data (in thousands, except percentages) <sup>(1)</sup> :			
Total available room nights	20,747	20,803	(56)
Room nights displaced from renovation	231	154	77
% of available room nights displaced	1.1%	0.7%	40 bps

(1) See Liquidity and Capital Resources Capital Expenditures Hotel Reinvestment Program for a discussion of our phased capital investment program across our portfolio.

(2) Includes three Extended Stay Canada-branded hotels.

(3) On September 18, 2015, subsidiaries of the Company entered into a purchase and sale agreement to sell a portfolio of 53 hotel properties, six of which are included in Unrenovated Extended Stay America and other and 47 of which are included in Crossland Economy Studios. The Company expects the transaction to close in the fourth quarter of 2015.

*Room revenues.* Room revenues increased by approximately \$56.8 million, or 6.2%, to approximately \$974.1 million for the nine months ended September 30, 2015 compared to approximately \$917.3 million for the nine months ended September 30, 2014. The increase in room revenues was due to a 7.6% increase in ADR partially offset by a 80 bps decrease in occupancy, resulting in a 6.5% increase in RevPAR, which was primarily a result of a shift in our customer mix to a greater number of high yield, shorter-stay guests as well as the collective impact of our hotel reinvestment program, upgraded operational practices, investments in marketing and focus on service excellence.

*Other hotel revenues.* Other hotel revenues increased by approximately \$0.8 million, or 5.9%, to approximately \$14.3 million for the nine months ended September 30, 2015 compared to approximately \$13.5 million for the nine months ended September 30, 2014.

*Hotel operating expenses.* Hotel operating expenses increased by approximately \$2.3 million, or 0.5%, to approximately \$450.5 million for the nine months ended September 30, 2015 compared to approximately \$448.3 million for the nine months ended September 30, 2014. Adjusted hotel operating expenses, which exclude loss on disposal of assets, were approximately \$447.2 million and \$445.8 million for the nine months ended September 30,

2015 and 2014, respectively, an increase of approximately \$1.4 million. The increase was partly driven by an increase in reservation costs of approximately \$5.0 million, mainly due to the system-wide implementation of our central reservations call center and an increase in sales volume, as well as an increase in hotel personnel expense of approximately \$3.7 million and the allowance for uncollectible accounts receivable of approximately \$2.1 million. These increases were partially offset by a decrease in marketing costs of approximately \$5.6 million, mainly due to a decrease in television advertising, as well as a decrease in property insurance claims expense of approximately \$1.9 million due to fewer and less severe insurable events than in the prior year and repairs and maintenance expense of approximately \$1.2 million.

Hotel Operating Margin (as defined in [Non-GAAP Financial Measures](#)) increased to 54.8% for the nine months ended September 30, 2015 compared to 52.1% for the nine months ended September 30, 2014. Total room and other hotel revenues increased by approximately \$57.6 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, while Hotel Operating Profit (as defined in [Non-GAAP Financial Measures](#)) increased by approximately \$56.2 million for the same period, which represents an operating margin flow-through, defined as the change in Hotel Operating Profit divided by the change in total room and other hotel revenues, of approximately 97.5%.

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*General and administrative expenses.* General and administrative expenses increased by approximately \$9.7 million, or 15.1%, to approximately \$73.9 million for the nine months ended September 30, 2015 compared to approximately \$64.2 million for the nine months ended September 30, 2014. Adjusted general and administrative expenses, which exclude non-cash equity-based compensation and public company transition costs, including costs incurred in connection with the preparation of the registration statement filed on June 5, 2015 and the August 2014 secondary offering, as well as consulting fees related to the implementation of certain key strategic initiatives in 2014, were approximately \$65.3 million and \$52.0 million for the nine months ended September 30, 2015 and 2014, respectively, an increase of approximately \$13.3 million. The increase was mainly driven by increases in personnel expense of approximately \$8.7 million, partly attributable to an increase in short term incentive compensation during the nine months ended September 30, 2015 due to our improved operating performance and a credit of approximately \$2.3 million recognized in the prior year related to the settlement of previous incentive agreements with certain operations personnel, as well as increases in legal settlements and professional fees totaling approximately \$2.0 million and ongoing costs related to our new revenue management system of approximately \$1.5 million.

*Depreciation and amortization.* Depreciation and amortization increased by approximately \$12.6 million, or 9.0%, to approximately \$152.0 million for the nine months ended September 30, 2015 compared to approximately \$139.4 million for the nine months ended September 30, 2014. The increase in depreciation and amortization was primarily due to an increase in investment in hotel assets as a result of our hotel reinvestment program.

*Impairment of long-lived assets.* Asset impairments are recorded as required based on an evaluation of property and equipment and intangible assets for impairment. During the nine months ended September 30, 2015, we recognized an impairment charge related to property and equipment of approximately \$9.0 million. No impairment charge was recognized during the nine months ended September 30, 2014.

*Gain on sale of hotel properties.* During the nine months ended September 30, 2014, we recognized a gain on sale of hotel properties of approximately \$0.9 million, which related to the sale of our two Hometown Inn-branded hotels in July 2014.

*Other non-operating expense.* During the nine months ended September 30, 2015 and 2014, we recognized non-cash foreign currency transaction losses of approximately \$2.0 million and \$2.8 million, respectively, mainly related to the appreciation of the U.S. dollar versus the Canadian dollar at one of our Canadian currency-based entities which has U.S. dollar denominated debt.

*Interest expense, net.* Excluding debt extinguishment costs of approximately \$2.3 million and \$9.4 million incurred during the nine months ended September 30, 2015 and 2014, respectively, net interest expense decreased approximately \$7.4 million, or 6.9%, to approximately \$99.7 million for the nine months ended September 30, 2015 compared to approximately \$107.1 million for the nine months ended September 30, 2014. In June 2014, ESH REIT repaid the remaining outstanding principal amount of \$365.0 million of three mezzanine loans using principally all of the net proceeds from its 2014 Term Loan (as defined in [Liquidity and Capital Resources](#)) decreasing the Company's weighted-average interest rate from approximately 4.4% to approximately 3.9%. In May 2015, ESH REIT repaid \$500.0 million of its 2012 Mortgage Loan (as defined in [Liquidity and Capital Resources](#)) using the net proceeds from the issuance of its 2025 Notes (as defined in [Liquidity and Capital Resources](#)), increasing the Company's weighted-average interest rate from approximately 4.0% to approximately 4.4%.

*Income tax expense.* Our effective income tax rate increased by approximately 0.4 percentage points to approximately 24.2% for the nine months ended September 30, 2015 compared to approximately 23.8% for the nine months ended September 30, 2014. The Company's effective tax rate is lower than the federal statutory rate of 35% due to ESH REIT's status as a REIT under the provisions of the Code during these periods. In the future, ESH REIT intends to

distribute approximately 95% of its taxable income, excluding net capital gains. ESH REIT will incur federal and state income tax at statutory rates on its taxable income not distributed.

**Table of Contents****Results of Operations ESH REIT**

ESH REIT owns all of our hotel properties. ESH REIT's sole source of revenues is lease rental revenues. ESH REIT's operating expenses reflect only those hotel operating expenses that are incurred directly by ESH REIT. Costs reimbursed to ESA Management are reflected as a component of general and administrative expenses.

**Comparison of Three Months Ended September 30, 2015 and September 30, 2014**

As of September 30, 2015 and 2014, ESH REIT owned 682 hotels consisting of 76,000 rooms. On September 18, 2015, subsidiaries of ESH REIT, together with a subsidiary of the Corporation, entered into a purchase and sale agreement to sell a portfolio of 53 of ESH REIT's hotel properties, 47 of which operate under the Crossland Economy Studios brand and six of which operate under the Extended Stay America brand, and certain of the Corporation's intellectual property. The transaction is expected to close in the fourth quarter of 2015. Upon closing, the existing lease will be amended to reflect the fact that ESH REIT no longer owns these 53 hotel properties.

The following table presents ESH REIT's consolidated results of operations for the three months ended September 30, 2015 and 2014, including the amount and percentage change in these results between the periods (in thousands):

	<b>Three Months Ended</b>			
	<b>September 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>Change (\$)</b>	<b>Change (%)</b>
<b>Revenues:</b> Rental revenues from Extended Stay America, Inc.	\$ 156,841	\$ 139,605	\$ 17,236	12.3%
<b>Operating expenses:</b>				
Hotel operating expenses	20,109	23,452	(3,343)	(14.3)%
General and administrative expenses	3,892	3,304	588	17.8%
Depreciation and amortization	51,043	46,176	4,867	10.5%
Gain on sale of hotel properties		(864)	864	n/m
<b>Total operating expenses</b>	<b>75,044</b>	<b>72,068</b>	<b>2,976</b>	<b>4.1%</b>
<b>Income from operations</b>	<b>81,797</b>	<b>67,537</b>	<b>14,260</b>	<b>21.1%</b>
Other non-operating expense	1,209	1,069	140	13.1%
Interest expense, net	34,394	31,986	2,408	7.5%
<b>Income before income tax expense (benefit)</b>	<b>46,194</b>	<b>34,482</b>	<b>11,712</b>	<b>34.0%</b>
Income tax expense (benefit)	424	(1,858)	2,282	122.8%
<b>Net income</b>	<b>\$ 45,770</b>	<b>\$ 36,340</b>	<b>\$ 9,430</b>	<b>25.9%</b>

n/m = not meaningful

*Rental revenues from Extended Stay America, Inc.* Rental revenues increased by approximately \$17.2 million, or 12.3%, to approximately \$156.8 million for the three months ended September 30, 2015 compared to approximately \$139.6 million for the three months ended September 30, 2014. Rental revenues consist of fixed minimum rental payments recognized on a straight-line basis over the lease terms plus specified percentages paid by the Operating

Lessees on hotel revenues over designated thresholds. Percentage rental revenues of approximately \$33.7 million and \$16.2 million were recognized during the three months ended September 30, 2015 and 2014, respectively. Percentage rental revenues increased primarily due to the increased revenues of the leased hotel properties. The appreciation of the U.S. dollar relative to the Canadian dollar partially offset this increase.

*Hotel operating expenses.* Hotel operating expenses decreased by approximately \$3.3 million, or 14.3%, to approximately \$20.1 million for the three months ended September 30, 2015 compared to approximately \$23.5 million for the three months ended September 30, 2014. The decrease was primarily driven by a decrease in property-related costs that were obligations of ESH REIT due to its ownership of the hotels, including property insurance claims and other related expenses totaling approximately \$3.3 million mainly due to fewer and less severe insurable events than in the prior year, and real estate tax expense of approximately \$0.9 million due to the reduction in estimated tax expense in certain jurisdictions. This decrease was partially offset by an increase in loss on disposal of assets of approximately \$1.0 million.



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*General and administrative expenses.* General and administrative expenses increased by approximately \$0.6 million, or 17.8%, to approximately \$3.9 million for the three months ended September 30, 2015 compared to approximately \$3.3 million for the three months ended September 30, 2014. The increase was mainly due to an increase in reimbursable costs of approximately \$0.7 million to ESA Management for certain overhead services performed on ESH REIT's behalf (including executive management, accounting, financial analysis, training and technology) as well as an increase in professional and other fees of approximately \$0.2 million, partially offset by a decrease in public company transition costs of approximately \$0.4 million.

*Depreciation and amortization.* Depreciation and amortization increased by approximately \$4.9 million, or 10.5%, to approximately \$51.0 million for the three months ended September 30, 2015 compared to approximately \$46.2 million for the three months ended September 30, 2014. The increase in depreciation and amortization was primarily due to an increase in investment in hotel assets as a result of our hotel reinvestment program.

*Gain on sale of hotel properties.* During the three months ended September 30, 2014, ESH REIT recognized a gain on sale of hotel properties of approximately \$0.9 million, which related to the sale of its two Hometown Inn-branded hotels in July 2014.

*Other non-operating expense.* During the three months ended September 30, 2015 and 2014, ESH REIT recognized non-cash foreign currency transaction losses of approximately \$1.2 million and \$1.1 million, respectively, mainly related to the appreciation of the U.S. dollar versus the Canadian dollar at one of its Canadian currency-based entities which has U.S. dollar denominated debt.

*Interest expense, net.* Net interest expense increased by approximately \$2.4 million, or 7.5%, to approximately \$34.4 million for the three months ended September 30, 2015 compared to approximately \$32.0 million for the three months ended September 30, 2014. In May 2015, ESH REIT repaid \$500.0 million of its 2012 Mortgage Loan (as defined in Liquidity and Capital Resources ) using the net proceeds from the issuance of its 2025 Notes (as defined in Liquidity and Capital Resources ), increasing ESH REIT's weighted-average interest rate from approximately 3.9% to approximately 4.3%.

*Income tax expense (benefit).* ESH REIT's effective income tax rate increased by approximately 6.3 percentage points to a provision of approximately 0.9% for the three months ended September 30, 2015 compared to a benefit of approximately 5.4% for the three months ended September 30, 2014, primarily due to discrete provision to return adjustments recognized upon the filing of tax returns. ESH REIT's effective tax rate is lower than the federal statutory rate of 35% due to its status as a REIT under the provisions of the Code during these periods. In the future, ESH REIT intends to distribute approximately 95% of its taxable income, excluding net capital gains. ESH REIT will incur federal and state income tax at statutory rates on its taxable income not distributed.

**Table of Contents*****Comparison of Nine Months Ended September 30, 2015 and September 30, 2014***

As of September 30, 2015 and 2014, ESH REIT owned 682 hotels consisting of 76,000 rooms. On September 18, 2015, subsidiaries of ESH REIT, together with a subsidiary of the Corporation, entered into a purchase and sale agreement to sell a portfolio of 53 of ESH REIT's hotel properties, 47 of which operate under the Crossland Economy Studios brand and six of which operate under the Extended Stay America brand, and certain of the Corporation's intellectual property. The transaction is expected to close in the fourth quarter of 2015. Upon closing, the existing lease will be amended to reflect the fact that ESH REIT no longer owns these 53 hotel properties.

The following table presents ESH REIT's consolidated results of operations for the nine months ended September 30, 2015 and 2014, including the amount and percentage change in these results between the periods (in thousands):

	<b>Nine Months Ended September 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>Change (\$)</b>	<b>Change (%)</b>
<b>Revenues:</b> Rental revenues from Extended Stay America, Inc.	\$ 403,632	\$ 386,851	\$ 16,781	4.3%
<b>Operating expenses:</b>				
Hotel operating expenses	65,465	71,136	(5,671)	(8.0)%
General and administrative expenses	12,251	12,831	(580)	(4.5)%
Depreciation and amortization	148,365	136,258	12,107	8.9%
Gain on sale of hotel properties		(864)	864	n/m
<b>Total operating expenses</b>	<b>226,081</b>	<b>219,361</b>	<b>6,720</b>	<b>3.1%</b>
Other income	37	263	(226)	(85.9)%
<b>Income from operations</b>	<b>177,588</b>	<b>167,753</b>	<b>9,835</b>	<b>5.9%</b>
Other non-operating expense	2,275	2,719	(444)	(16.3)%
Interest expense, net	99,679	111,416	(11,737)	(10.5)%
<b>Income before income tax expense (benefit)</b>	<b>75,634</b>	<b>53,618</b>	<b>22,016</b>	<b>41.1%</b>
Income tax expense (benefit)	630	(1,303)	1,933	148.3%
<b>Net income</b>	<b>\$ 75,004</b>	<b>\$ 54,921</b>	<b>\$ 20,083</b>	<b>36.6%</b>

n/m = not meaningful

*Rental revenues from Extended Stay America, Inc.* Rental revenues increased by approximately \$16.8 million, or 4.3%, to approximately \$403.6 million for the nine months ended September 30, 2015 compared to approximately \$386.9 million for the nine months ended September 30, 2014. Rental revenues consist of fixed minimum rental payments recognized on a straight-line basis over the lease terms plus specified percentages paid by the Operating Lessees on hotel revenues over designated thresholds. Percentage rental revenues of approximately \$34.1 million and \$16.2 million were recognized during the nine months ended September 30, 2015 and 2014, respectively. Percentage rental revenues increased primarily due to increased revenues of the leased hotel properties. The sale of two hotel properties in July 2014 as well as the appreciation of the U.S. dollar relative to the Canadian dollar partially offset this increase.

*Hotel operating expenses.* Hotel operating expenses decreased by approximately \$5.7 million, or 8.0%, to approximately \$65.5 million for the nine months ended September 30, 2015 compared to approximately \$71.1 million for the nine months ended September 30, 2014. The decrease was primarily driven by a decrease in property-related costs that were obligations of ESH REIT due to its ownership of the hotels, including property insurance claims and other related expenses totaling approximately \$4.9 million mainly due to fewer and less severe insurable events than in the prior year, and real estate tax expense of approximately \$0.9 million due to the receipt of prior year real estate tax refunds in certain jurisdictions. This decrease was partially offset by an increase in loss on disposal of assets of approximately \$0.7 million.

*General and administrative expenses.* General and administrative expenses decreased by approximately \$0.6 million, or 4.5%, to approximately \$12.3 million for the nine months ended September 30, 2015 compared to approximately \$12.8 million for the nine months ended September 30, 2014. The decrease was mainly due to a decrease in public company transition costs and consulting fees

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of approximately \$3.5 million, partially offset by an increase in reimbursable costs of approximately \$1.9 million to ESA Management for certain overhead services performed on ESH REIT's behalf (including executive management, accounting, financial analysis, training and technology) as well as an increase in professional and other fees of approximately \$0.8 million.

*Depreciation and amortization.* Depreciation and amortization increased by approximately \$12.1 million, or 8.9%, to approximately \$148.4 million for the nine months ended September 30, 2015 compared to approximately \$136.3 million for the nine months ended September 30, 2014. The increase in depreciation and amortization was primarily due to an increase in investment in hotel assets as a result of our hotel reinvestment program.

*Gain on sale of hotel properties.* During the nine months ended September 30, 2014, ESH REIT recognized a gain on sale of hotel properties of approximately \$0.9 million, which related to the sale of its two Hometown Inn-branded hotels in July 2014.

*Other non-operating expense.* During the nine months ended September 30, 2015 and 2014, ESH REIT recognized non-cash foreign currency transaction losses of approximately \$2.3 million and \$2.7 million, respectively, mainly related to the appreciation of the U.S. dollar versus the Canadian dollar at one of its Canadian currency-based entities which has U.S. dollar denominated debt.

*Interest expense, net.* Excluding debt extinguishment costs of approximately \$2.3 million and \$9.4 million incurred during the nine months ended September 30, 2015 and 2014, respectively, net interest expense decreased by approximately \$4.6 million, or 4.5%, to approximately \$97.4 million for the nine months ended September 30, 2015 compared to approximately \$102.0 million for the nine months ended September 30, 2014. In June 2014, ESH REIT repaid the remaining outstanding principal amount of \$365.0 million of three mezzanine loans using principally all of the net proceeds from its 2014 Term Loan (as defined in Liquidity and Capital Resources), decreasing ESH REIT's weighted-average interest rate from approximately 4.4% to approximately 3.9%. In May 2015, ESH REIT repaid \$500.0 million of its 2012 Mortgage Loan (as defined in Liquidity and Capital Resources) using the net proceeds from the issuance of its 2025 Notes (as defined in Liquidity and Capital Resources), increasing ESH REIT's weighted-average interest rate from approximately 3.9% to approximately 4.3%.

*Income tax expense (benefit).* ESH REIT's effective income tax rate increased by approximately 3.2 percentage points to a provision of approximately 0.8% for the nine months ended September 30, 2015 compared to a benefit of approximately 2.4% for the nine months ended September 30, 2014, primarily due to discrete provision to return adjustments recognized upon the filing of tax returns. ESH REIT's effective tax rate is lower than the federal statutory rate of 35% due to its status as a REIT under the provisions of the Code during these periods. In the future, ESH REIT intends to distribute approximately 95% of its taxable income, excluding net capital gains. ESH REIT will incur federal and state income tax at statutory rates on its taxable income not distributed.

**Non-GAAP Financial Measures****EBITDA and Adjusted EBITDA**

EBITDA is defined as net income excluding: (1) net interest expense; (2) income tax expense; and (3) depreciation and amortization. EBITDA is a commonly used measure of performance in many industries. The Company believes that EBITDA provides useful information to investors regarding our operating performance as it helps us and investors evaluate the ongoing performance of our hotels after removing the impact of our capital structure, primarily net interest expense, our corporate structure, primarily income tax expense, and our asset base, primarily depreciation and amortization. We believe that the use of EBITDA facilitates comparisons between us and other lodging

companies, hotel owners and capital-intensive companies. Additionally, EBITDA is a measure that is widely used by management in our annual budgeting and compensation planning processes.

The Company uses Adjusted EBITDA when evaluating our performance because we believe the adjustment for certain additional items, described below, provides useful supplemental information to investors regarding our ongoing operating performance and that the presentation of Adjusted EBITDA, when combined with the U.S. GAAP presentation of net income, net income per common share and cash flow provided by operating activities, is beneficial to the overall understanding of our ongoing operating performance. We adjust EBITDA for the following items and refer to this measure as Adjusted EBITDA:

*Non-cash equity-based compensation* We exclude non-cash charges related to the amortization of equity-based compensation awards to employees and directors.

*Other non-operating expense (income)* We exclude the effect of other non-operating income or expense, as we believe non-cash foreign currency transaction gain or loss is not reflective of ongoing or future operating performance.

*Impairment of long-lived assets* We exclude the effect of impairment losses recorded on property and equipment and intangible assets, as we believe they are not reflective of ongoing or future operating performance.

*(Gain) loss on the sale of hotel properties* We exclude the gain or loss on the sale of hotel properties, as we believe it is not reflective of ongoing or future operating performance.

*Other expenses (income)* We exclude the effect of income or expenses that we do not consider reflective of ongoing or future operating performance including the following: public company transition costs, including costs incurred in connection with the preparation of the registration statement filed on June 5, 2015 and the August 2014 secondary offering, consulting fees related to the implementation of certain key strategic initiatives, and loss on disposal of assets.

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EBITDA and Adjusted EBITDA as presented may not be comparable to similar measures calculated by other companies. This information should not be considered as an alternative to net income, net income per common share, cash flow from operations or any other operating performance measure calculated in accordance with U.S. GAAP. Cash expenditures for various real estate or hotel assets such as capital expenditures, interest expense and other items have been and will continue to be incurred and are not reflected in EBITDA or Adjusted EBITDA. Management compensates for these limitations by separately considering the impact of these excluded items to the extent they are material to operating decisions and assessments of operating performance. The Company's unaudited condensed consolidated statements of operations and cash flows include capital expenditures, net interest expense and other excluded items, all of which should be considered when evaluating our performance, in addition to our non-GAAP financial measures. Additionally, EBITDA and Adjusted EBITDA should not solely be considered as measures of our liquidity or indicative of funds available to fund our cash needs, including our ability to pay distributions.

EBITDA and Adjusted EBITDA are not meaningful or useful measures for ESH REIT on a stand-alone basis due to the fact that a Paired Share represents an investment in the Company, as a single, consolidated enterprise, which is reflected in the consolidated Company results of operations; therefore, we believe these performance measures are meaningful for the Company only. The following table provides a reconciliation of net income to EBITDA and Adjusted EBITDA for the Company for the three and nine months ended September 30, 2015 and 2014 (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 58,225	\$ 60,185	\$ 150,890	\$ 122,550
Interest expense, net	35,157	33,377	101,975	116,464
Income tax expense	21,293	18,970	48,119	38,187
Depreciation and amortization	52,268	47,124	151,980	139,401
<b>EBITDA</b>	<b>166,943</b>	<b>159,656</b>	<b>452,964</b>	<b>416,602</b>
Non-cash equity-based compensation	3,021	2,283	7,940	7,173
Other non-operating expense	1,143	1,058	2,035	2,837
Impairment of long-lived assets	9,011		9,011	
Gain on sale of hotel properties		(864)		(864)
Other expenses	1,290 <sup>(1)</sup>	969 <sup>(2)</sup>	4,034 <sup>(3)</sup>	7,561 <sup>(4)</sup>
<b>Adjusted EBITDA</b>	<b>\$ 181,408</b>	<b>\$ 163,102</b>	<b>\$ 475,984</b>	<b>\$ 433,309</b>

(1) Includes loss on disposal of assets of approximately \$1.3 million.

(2) Includes public company transition costs of approximately \$0.8 million, including approximately \$0.6 million in costs incurred in connection with the August 2014 secondary offering, and loss on disposal of assets of approximately \$0.2 million.

(3) Includes costs incurred in connection with the preparation of the registration statement filed on June 5, 2015 of approximately \$0.7 million, and loss on disposal of assets of approximately \$3.3 million.

(4) Includes public company transition costs of approximately \$3.2 million, including approximately \$1.5 million in costs incurred in connection with the August 2014 secondary offering, consulting fees of approximately

\$1.9 million related to the implementation of certain key strategic initiatives, including review of our corporate infrastructure, and loss on disposal of assets of approximately \$2.5 million.

**Hotel Operating Profit and Hotel Operating Margin**

Hotel Operating Profit and Hotel Operating Margin measure hotel-level operating results prior to debt service, depreciation and amortization and general and administrative expenses and are supplemental measures of aggregate hotel-level profitability used by management to evaluate hotel operating profitability. We define Hotel Operating Profit as the sum of room and other hotel revenues less hotel operating expenses (excluding loss on disposal of assets) and Hotel Operating Margin as the ratio of Hotel Operating Profit divided by the sum of room and other hotel revenues.

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Hotel Operating Profit and Hotel Operating Margin are not meaningful or useful measures for ESH REIT on a stand-alone basis due to the fact that a Paired Share represents an investment in the Company, as a single, consolidated enterprise, which is reflected in the consolidated Company results of operations; therefore, we believe these performance measures are meaningful for the Company only. The following table provides a reconciliation of room revenues, other hotel revenues and hotel operating expenses (excluding loss on disposal of assets) to Hotel Operating Profit and Hotel Operating Margin for the Company for the three and nine months ended September 30, 2015 and 2014 (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Room revenues	\$ 355,445	\$ 333,970	\$ 974,127	\$ 917,286
Other hotel revenues	5,071	4,583	14,291	13,497
<b>Total hotel revenues</b>	<b>360,516</b>	<b>338,553</b>	<b>988,418</b>	<b>930,783</b>
Hotel operating expenses <sup>(1)</sup>	157,761	158,914	447,217	445,756
<b>Hotel Operating Profit</b>	<b>\$ 202,755</b>	<b>\$ 179,639</b>	<b>\$ 541,201</b>	<b>\$ 485,027</b>
Hotel Operating Margin	56.2%	53.1%	54.8%	52.1%

(1) Excludes loss on disposal of assets of approximately \$1.3 million, \$0.2 million, \$3.3 million and \$2.5 million, respectively.

**Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per Paired Share**

We present Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per Paired Share as supplemental measures of the Company's operating performance. We believe that these are useful measures for investors since our Paired Shares, directly through the common stock of the Corporation and Class B common stock of ESH REIT, and indirectly through the Corporation's ownership of the Class A common stock of ESH REIT, entitle holders of our Paired Shares to participate in 100% of the common equity and earnings of both the Corporation and ESH REIT. As required by U.S. GAAP, net income attributable to common shareholders excludes earnings attributable to ESH REIT's Class B common shares, a noncontrolling interest. Based on the limitation on transfer provided for in each of the Corporation's and ESH REIT's charters, shares of common stock of the Corporation and shares of Class B common stock of ESH REIT are transferrable and tradable only in combination as units, each unit consisting of one share of the Corporation's common stock and one share of ESH REIT Class B common stock. As a result, we believe that Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per Paired Share represent useful measures to holders of our Paired Shares.

Paired Share Income is defined as the sum of net income attributable to common shareholders and noncontrolling interests attributable to Class B common shares of ESH REIT. Adjusted Paired Share Income is defined as Paired Share Income adjusted for items that, net of income taxes, we believe are not reflective of our ongoing or future operating performance. We adjust Paired Share Income for the following items, net of income taxes, and refer to this measure as Adjusted Paired Share Income: debt extinguishment costs, other non-operating (income) expense (including foreign currency transaction gain or loss), impairment of long-lived assets, (gain) loss on sale of hotel



properties, and other expense (income), such as public company transition costs, including costs incurred in connection with the preparation of the registration statement filed on June 5, 2015 and the August 2014 secondary offering, consulting fees related to certain key strategic initiatives, and loss on disposal of assets. With the exception of equity-based compensation, an ongoing charge, and debt extinguishment costs, these adjustments (other than the effect of income taxes) are the same as those used in the reconciliation of EBITDA to Adjusted EBITDA.

Adjusted Paired Share Income per Paired Share is defined as Adjusted Paired Share Income divided by the number of Paired Shares outstanding on a basic and diluted basis. Until such time as the number of outstanding common shares of the Corporation and Class B common shares of ESH REIT differ, we believe Adjusted Paired Share Income per Paired Share is useful to investors, as it represents the economic risks and rewards related to an investment in our Paired Shares. We believe that Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per Paired Share provide meaningful indicators of the Company's operating performance in addition to separate and/or individual analyses of net income attributable to common shareholders of the Corporation and net income attributable to Class B common shareholders of ESH REIT, each of which may be impacted by specific U.S. GAAP requirements, including the recognition of contingent lease rental revenues and the recognition of lease rental revenues on a straight-line basis, and may not necessarily reflect how cash flows are generated on an individual entity or total enterprise basis.

Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per Paired Share should not be considered as an alternative to net income of the Company, net income of the Corporation, net income of ESH REIT, net income per share of common stock of the Corporation, net income per share of Class A or Class B common stock of ESH REIT or any other operating measure calculated in accordance with U.S. GAAP.

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Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per Paired Share are not meaningful or useful measures for ESH REIT on a stand-alone basis due to the fact that a Paired Share represents an investment in the Company, as a single, consolidated enterprise, which is reflected in the consolidated Company results of operations; therefore, we believe these performance measures are meaningful for the Company only. The following table provides a reconciliation of net income attributable to common shareholders to Paired Share Income, Adjusted Paired Share Income and a calculation of Adjusted Paired Share Income per Paired Share for the three and nine months ended September 30, 2015 and 2014 (in thousands, except per Paired Share data):

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net income attributable to common shareholders	\$ 37,656	\$ 43,875	\$ 117,187	\$ 97,901
Noncontrolling interests attributable to Class B common shares of ESH REIT	20,565	16,306	33,691	24,637
Paired Share Income	58,221	60,181	150,878	122,538
Debt extinguishment costs			1,790	7,185
Other non-operating expense	837	281	1,487	2,158
Impairment of long-lived assets	6,598		6,598	
Gain on sale of hotel properties		(659)		(659)
Other expenses	944 <sup>(1)</sup>	76 <sup>(2)</sup>	3,050 <sup>(3)</sup>	5,761 <sup>(4)</sup>
Adjusted Paired Share Income	\$ 66,600	\$ 59,879	\$ 163,803	\$ 136,983
Adjusted Paired Share Income per Paired Share basic	\$ 0.33	\$ 0.29	\$ 0.80	\$ 0.67
Adjusted Paired Share Income per Paired Share diluted	\$ 0.33	\$ 0.29	\$ 0.80	\$ 0.67
Weighted average Paired Shares outstanding basic	204,281	203,593	204,171	203,449
Weighted average Paired Shares outstanding diluted	204,685	204,540	204,538	204,492

(1) Includes loss on disposal of assets of approximately \$1.3 million pre-tax, which totals approximately \$0.9 million after-tax.

(2) Includes public company transition costs of approximately \$0.8 million pre-tax, including approximately \$0.6 million pre-tax in costs incurred in connection with the August 2014 secondary offering, and loss on disposal of assets of approximately \$0.2 million pre-tax, which total approximately \$0.1 million after-tax.

(3) Includes costs incurred in connection with the preparation of the registration statement filed on June 5, 2015 of approximately \$0.7 million pre-tax, and loss on disposal of assets of approximately \$3.3 million pre-tax, which total approximately \$3.1 million after-tax.

(4) Includes public company transition costs of approximately \$3.2 million pre-tax, including approximately \$1.5 million pre-tax in costs incurred in connection with the August 2014 secondary offering, consulting fees of approximately \$1.9 million pre-tax related to the implementation of certain key strategic initiatives, including review of our corporate infrastructure, and loss on disposal of assets of approximately \$2.5 million pre-tax, which

total approximately \$5.8 million after-tax.

## **Liquidity and Capital Resources**

### **Company Overview**

On a consolidated basis, we have historically generated significant cash flow from operations and have financed our ongoing business primarily with existing cash and cash flow generated from operations. We generated cash flow from operations of approximately \$365.2 million for the nine months ended September 30, 2015. Our current liquidity requirements consist primarily of funds necessary to pay for operating expenses directly associated with our hotels, recurring maintenance and capital expenditures necessary to maintain our hotels, general and administrative expenses, interest expense, scheduled principal payments (including debt maturity payments) on ESH REIT's outstanding indebtedness, Corporation distributions and required ESH REIT distributions. In addition to recurring maintenance and capital expenditures necessary to maintain our hotels, we are also performing, and expect to continue to perform, renovations to our hotels. See **Capital Expenditures Hotel Reinvestment Program**. We expect to fund our hotel reinvestment program from a combination of cash on hand, cash flow from operations and/or borrowings under our revolving credit facilities, as needed. Other long-term liquidity requirements may include the need to obtain funds to acquire, develop or construct additional hotels.

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The Company had cash and cash equivalents of approximately \$107.5 million and restricted cash of approximately \$193.1 million at September 30, 2015. Based upon the current level of operations, management believes that cash flow from operations together with cash balances and available borrowings under revolving credit facilities (as described below) will be adequate to meet our anticipated funding requirements and business objectives for the foreseeable future. We regularly review our capital structure and at any time may refinance or repay existing indebtedness, incur new indebtedness or issue debt or equity securities.

In December 2014, ESH REIT exercised its first of three one-year options to extend the maturity date of Component A of the 2012 Mortgage Loan (as defined below) to December 1, 2015. Assuming we exercise the remaining two one-year extension options, which are subject to limited conditions, to extend the maturity of this debt, our long-term liquidity requirements will include funds for principal payments on ESH REIT's 2012 Mortgage Loan, the 2014 Term Loan and the 2025 Notes (each as defined below) maturing between December 2017 and May 2025. The 2015 extension conditions include providing an adequate extension notice period, the extension or renewal of an interest rate cap, as well as the requirement that none of the borrowing entities be in default, as defined. The 2016 extension conditions include the same conditions as the 2015 extension, as well as the requirement of a specified Extension Debt Yield, as defined, of 17.5%. Our long-term liquidity requirements will also include the repayment of any outstanding amounts under our revolving credit facilities which mature in November 2016.

In May 2015, ESH REIT issued \$500.0 million of 5.25% senior notes due in 2025. ESH REIT used the proceeds to repay \$318.0 million of Component A and \$182.0 million of Component B of the 2012 Mortgage Loan.

On June 5, 2015, the Corporation and ESH REIT filed an automatic shelf registration statement with the SEC pursuant to which, from time to time, (i) the Corporation and ESH REIT may offer and sell an unlimited number of Paired Shares and (ii) certain selling stockholders (the Selling Shareholders) may offer and sell up to 142,960,388 Paired Shares. The Selling Shareholders consist solely of entities affiliated with the Sponsors and do not include officers or directors of the Corporation or ESH REIT. As of September 30, 2015, the Corporation, ESH REIT and the Selling Shareholders have not sold any securities registered pursuant to the automatic shelf registration statement.

On September 18, 2015, subsidiaries of the Company entered into a purchase and sale agreement to sell a portfolio of 53 hotel properties, 47 of which operate under the Crossland Economy Studios brand and six of which operate under the Extended Stay America brand, and certain intellectual property of Crossland Economy Studios for \$285.0 million, subject to customary adjustments. As of September 30, 2015, the Company and ESH REIT have classified these assets and their related liabilities as assets held for sale and liabilities related to assets held for sale, respectively, in the accompanying unaudited condensed consolidated balance sheet. See Note 3 to each of the unaudited condensed consolidated financial statements of the Company and ESH REIT, both of which are included elsewhere in this combined quarterly report on Form 10-Q. The Company and ESH REIT expect the transaction to close in the fourth quarter of 2015. Upon closing, ESH REIT expects to repay approximately \$86.1 million of the 2012 Mortgage Loan outstanding balance. ESH REIT expects to use its net proceeds from the transaction to either repay additional debt or fund future capital expenditures, acquisitions, development or construction of new hotels in compliance with its existing debt agreements. At this time, the Corporation has not finalized its plans for the use of proceeds from the sale of the Crossland Economy Studios intellectual property. In addition, ESH REIT and the Corporation expect to make a special distribution in the amount of approximately \$0.20 to \$0.25 per Paired Share, of which approximately \$0.18 to \$0.20 is expected to be funded by ESH REIT, with the remainder expected to be funded by the Corporation. No distribution has yet been declared, and there can be no assurance that any distribution will be declared or paid.

On October 27, 2015, the Board of Directors of ESH REIT declared a cash distribution of \$0.15 per share for the third quarter of 2015. Additionally, the Board of Directors of the Corporation declared a cash distribution of \$0.02 per share for the third quarter of 2015. These distributions, which total \$0.17 per Paired Share, will be payable November 24,

2015 to shareholders of record as of November 10, 2015. See **Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Distribution Policies** in our combined annual report on Form 10-K filed with the SEC on February 26, 2015 for a description of our distribution policies.

We expect to meet our long-term liquidity requirements through various sources of capital, including future debt or equity financings by the Corporation and/or ESH REIT, existing working capital and cash flow from operations. However, there are a number of factors that may have a material adverse effect on our ability to access these capital sources, including the current and future state of overall equity and credit markets, our degree of leverage, the value of our unencumbered assets and borrowing restrictions imposed by existing or prospective lenders, general market conditions for the lodging industry, our operating performance and liquidity and market perceptions about us. The success of our business strategy will depend, in part, on our ability to access these various capital sources. There can be no assurance that we will be able to raise any such financing on terms acceptable to us or at all.

### **The Corporation**

The Corporation's primary source of liquidity is distribution income it receives in respect of its ownership of approximately 55% of the common stock of ESH REIT. Other potential sources of liquidity include income from the operations of the Operating Lessees, ESA Management and ESH Strategies.

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The Corporation has accumulated, and we expect that it will continue to accumulate, cash. We expect that over time it may return cash to ESH REIT in order to fund the renovation, acquisition, development or construction of new hotels, the repayment of debt and for other corporate purposes. The Corporation may transfer cash to ESH REIT through the purchase of additional shares of Class A common stock, which would increase its ownership of ESH REIT and reduce the Company's overall tax efficiency. The Corporation may also lend funds to ESH REIT through the execution of an unsecured intercompany credit facility with an aggregate principal amount of up to \$200.0 million. The covenants of any such unsecured intercompany credit facility would be expected to be customary for similar debt securities in light of then-prevailing market conditions, including certain existing loan covenants. Entering into an unsecured intercompany credit facility and the terms of such credit facility are subject to a number of factors, including certain existing loan covenants, and we may not enter into an intercompany credit facility at all.

On October 27, 2015, the Board of Directors of the Corporation declared a cash distribution of \$0.02 per share for the third quarter of 2015 on its common stock. This distribution is payable on November 24, 2015 to shareholders of record as of November 10, 2015. In addition, upon closing of its contracted sale of the Crossland Economy Studios intellectual property, the Corporation expects to make a special distribution in the amount of approximately \$0.02 to \$0.07 per share. No distribution has yet been declared, and there can be no assurance that any distribution will be declared or paid. See "Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Distribution Policies" in our combined annual report on Form 10-K filed with the SEC on February 26, 2015 for a description of the Corporation's distribution policies.

The Corporation may continue to pay distributions on its common stock to meet all or a portion of our expected distribution rate on our Paired Shares. The payment of distributions in the future will be at the discretion of the Corporation's Board of Directors. Any such distributions will be made subject to the Corporation's compliance with applicable law, and will depend on, among other things, the receipt by the Corporation of distributions from ESH REIT in respect of the Class A common stock, the Corporation's results of operations and financial condition, level of indebtedness, capital requirements, contractual restrictions, restrictions in any existing and future debt agreements of the Corporation and ESH REIT and in any preferred stock and other factors that the Corporation's Board of Directors may deem relevant.

Based upon the current level of operations, management believes that the Corporation's cash position, cash flow from operations and available borrowings under the Corporation Revolving Credit Facility will be adequate to meet all of the Corporation's funding requirements and business objectives for the foreseeable future.

## **ESH REIT**

ESH REIT's primary source of liquidity is rental revenues derived from contractual lease arrangements with the Operating Lessees. ESH REIT's primary use of liquidity is fixed costs of ownership of the hotel properties, including interest expense, scheduled principal payments (including debt maturity payments) on its outstanding indebtedness, real estate tax expense, property insurance expense, capital expenditures, including those capital expenditures related to our hotel reinvestment program, and the payment of distributions. Other long-term liquidity requirements may include the need to obtain funds to acquire, develop or construct additional hotels. In order to qualify and maintain its status as a REIT, ESH REIT must distribute annually to its shareholders an amount at least equal to:

90% of its REIT taxable income, computed without regard to the deduction for dividends paid and excluding any net capital gains; plus

90% of the excess of its net income, if any, from foreclosure property over the tax imposed on such income by the Code; less

the sum of certain items of non-cash income that exceeds a percentage of ESH REIT's income.

In the future, ESH REIT intends to distribute approximately 95% of its taxable income, excluding net capital gains. ESH REIT is subject to income tax on its taxable income that is not distributed and to an excise tax to the extent that certain percentages of its taxable income are not distributed by specified dates.

In 2015, ESH REIT intends to distribute \$0.15 per quarter per share of Class A and Class B common stock, unless its consolidated results of operations, net income, Adjusted EBITDA, liquidity, cash flows, financial condition or prospects, economic conditions or other factors differ materially from current assumptions.

On October 27, 2015, the Board of Directors of ESH REIT declared a cash distribution of \$0.15 per share for the third quarter of 2015 on its Class A and Class B common stock. This distribution is payable on November 24, 2015 to shareholders of record as of November 10, 2015. In addition, upon closing of its contracted portfolio sale of the 53 hotel properties, ESH REIT expects to make a special distribution in the amount of approximately \$0.18 to \$0.20 per share. No distribution has yet been declared, and there can be no assurance that any distribution will be declared or paid. See [Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Distribution Policies](#) in our combined annual report Form 10-K filed with the SEC on February 26, 2015 for a description of ESH REIT's distribution policies.

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Due to REIT distribution requirements, ESH REIT has historically not accumulated significant amounts of cash and is not expected to do so in the future. As a result, and as discussed above, we expect that ESH REIT will need to refinance all or a portion of its debt, including the 2012 Mortgage Loan, the 2014 Term Loan and the 2025 Notes (each as defined below) on or before maturity. ESH REIT's long-term liquidity requirements will also include the repayment of any outstanding amounts under ESH REIT's revolving credit facility which matures in November 2016. See Our Indebtedness ESH REIT Mortgage Loan, Our Indebtedness ESH REIT Term Loan Facility, Our Indebtedness ESH REIT Senior Notes and Our Indebtedness ESH REIT Revolving Credit Facility. We cannot assure you that ESH REIT will be able to refinance any of its debt on attractive terms on or before maturity, on commercially reasonable terms or at all.

Based upon the current level of operations, management believes that ESH REIT's cash position, cash flow from operations and available borrowings under the ESH REIT Revolving Credit Facility will be adequate to meet all of ESH REIT's funding requirements and business objectives for the foreseeable future.



**Table of Contents****Sources and Uses of Cash    The Company**

The following cash flow table and comparisons are provided for the Company:

**Comparison of Nine Months Ended September 30, 2015 and September 30, 2014**

We had unrestricted cash and cash equivalents of approximately \$107.5 million and \$20.4 million at September 30, 2015 and 2014, respectively. The following table summarizes the changes in our cash and cash equivalents as a result of operating, investing and financing activities for the nine months ended September 30, 2015 and 2014 (in thousands):

	<b>Nine Months Ended September 30,</b>		
	<b>2015</b>	<b>2014</b>	<b>Change (\$)</b>
<b>Cash provided by (used in):</b>			
Operating activities	\$ 365,231	\$ 303,327	\$ 61,904
Investing activities	(256,653)	(246,635)	(10,018)
Financing activities	(122,340)	(96,653)	(25,687)
Effects of changes in exchange rate on cash and cash equivalents	(56)	(65)	9
Net decrease in cash and cash equivalents	\$ (13,818)	\$ (40,026)	\$ 26,208

***Cash Flows provided by Operating Activities***

Cash flows provided by operating activities totaled approximately \$365.2 million for the nine months ended September 30, 2015 compared to approximately \$303.3 million for the nine months ended September 30, 2014, an increase of approximately \$61.9 million. Cash flows from operations was positively impacted during the nine months ended September 30, 2015 by additional cash generated through improved operating performance of our hotels, specifically a 6.5% increase in RevPAR.

***Cash Flows used in Investing Activities***

Cash flows used in investing activities totaled approximately \$256.7 million for the nine months ended September 30, 2015 compared to approximately \$246.6 million for the nine months ended September 30, 2014, an increase of approximately \$10.0 million. Cash flows used in investing activities increased during the nine months ended September 30, 2015, primarily due to higher purchases of property and equipment as evidenced by the fact that approximately 231,000 room nights were displaced from renovation during the nine months ended September 30, 2015 compared to approximately 154,000 room nights which were displaced from renovation during the nine months ended September 30, 2014. This increase was partially offset by a decrease in the use of restricted cash.

***Cash Flows used in Financing Activities***

Cash flows used in financing activities totaled approximately \$122.3 million for the nine months ended September 30, 2015 compared to approximately \$96.7 million for the nine months ended September 30, 2014, an increase of approximately \$25.7 million. Cash flows used in financing activities increased during the nine months ended

September 30, 2015 partly due to total distributions to shareholders of approximately \$100.4 million during the nine months ended September 30, 2015 compared to total distributions to shareholders of approximately \$77.8 million during the nine months ended September 30, 2014, an increase of approximately \$22.6 million. Also, ESH REIT made a mandatory prepayment of approximately \$8.5 million on its 2014 Term Loan during the nine months ended September 30, 2015.

**Table of Contents****Sources and Uses of Cash ESH REIT**

The following cash flow table and comparisons are provided for ESH REIT:

**Comparison of Nine Months Ended September 30, 2015 and September 30, 2014**

ESH REIT had unrestricted cash and cash equivalents of approximately \$33.4 million and \$3.1 million at September 30, 2015 and 2014, respectively. The following table summarizes the changes in ESH REIT's cash and cash equivalents as a result of operating, investing and financing activities for the nine months ended September 30, 2015 and 2014 (in thousands):

	<b>Nine Months Ended September 30,</b>		
	<b>2015</b>	<b>2014</b>	<b>Change (\$)</b>
<b>Cash provided by (used in):</b>			
Operating activities	\$ 361,097	\$ 283,632	\$ 77,465
Investing activities	(251,330)	(221,933)	(29,397)
Financing activities	(110,136)	(77,225)	(32,911)
<b>Net decrease in cash and cash equivalents</b>	<b>\$ (369)</b>	<b>\$ (15,526)</b>	<b>\$ 15,157</b>

***Cash Flows provided by Operating Activities***

Cash flows provided by operating activities totaled approximately \$361.1 million for the nine months ended September 30, 2015 compared to approximately \$283.6 million for the nine months ended September 30, 2014, an increase of approximately \$77.5 million. Cash flows provided by operating activities increased during the nine months ended September 30, 2015 primarily due to an increase in percentage rental revenues collected of approximately \$51.6 million, which is due primarily to hotel revenue increases year over year at ESH REIT's hotels.

***Cash Flows used in Investing Activities***

Cash flows used in investing activities totaled approximately \$251.3 million for the nine months ended September 30, 2015 compared to approximately \$221.9 million for the nine months ended September 30, 2014, an increase of approximately \$29.4 million. Cash flows used in investing activities increased during the nine months ended September 30, 2015, primarily due to higher purchases of property and equipment as evidenced by the fact that approximately 231,000 room nights were displaced from renovation during the nine months ended September 30, 2015 compared to approximately 154,000 room nights which were displaced from renovation during the nine months ended September 30, 2014. Further, there was an increase in the use of restricted cash.

***Cash Flows used in Financing Activities***

Cash flows used in financing activities totaled approximately \$110.1 million for the nine months ended September 30, 2015 compared to approximately \$77.2 million for the nine months ended September 30, 2014, an increase of approximately \$32.9 million. Cash flows used in financing activities increased during the nine months ended September 30, 2015 partly due to ESH REIT's distributions to holders of Class A and B common stock of approximately \$204.9 million during the nine months ended September 30, 2015 compared to approximately \$172.9

million during the nine months ended September 30, 2014, an increase of approximately \$32.0 million. Also, ESH REIT made a mandatory prepayment of approximately \$8.5 million on its 2014 Term Loan during the nine months ended September 30, 2015.

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**Table of Contents****Capital Expenditures**

We maintain each of our hotels in good repair and condition and in conformity with applicable laws and regulations. The cost of all improvements and significant alterations are generally made with cash flows from operations. During the nine months ended September 30, 2015 and 2014, we incurred capital expenditures of approximately \$141.2 million and \$125.9 million, respectively. These capital expenditures were primarily made as a result of our hotel reinvestment program, which remains ongoing. Funding for future capital expenditures is expected to be provided primarily from cash flows from operations or, to the extent necessary, the Corporation or ESH REIT Revolving Credit Facilities. In 2015, we expect to incur capital expenditures between \$205.0 million and \$215.0 million, including the amounts spent in the first, second and third quarters.

***Hotel Reinvestment Program***

Since the third quarter of 2011, we have been performing significant hotel renovations and have been executing a phased capital investment program across our portfolio in order to seek to drive increases in ADR and incremental market share gains. We have developed a methodology for selecting specific hotels for our reinvestment program by evaluating potential returns based on multiple market and property specific variables. Prior to undertaking capital investment at a hotel, management determines whether, in its view, the selected level of investment is likely to result in incremental revenues and profits and achieve a return on investment that management believes would meet our return criteria.

A hotel renovation generally requires approximately \$1.0 million in spend per hotel. Hotel renovations typically include remodeling of common areas, new paint, carpet, signage, tile or vinyl flooring and counters in bathrooms and kitchens, as well as the refurbishment of furniture, replacement of aged mattresses and installation of new flat screen televisions, artwork, lighting and bedspreads.

We have undertaken the hotel reinvestment program in phases. As of September 30, 2015, we have substantially completed renovations at 413 hotels, with total incurred costs of approximately \$407.6 million. Also, as of September 30, 2015, we are in the process of implementing renovations at 49 additional hotels and will begin renovations at an additional 14 hotels during the fourth quarter of 2015, with estimated total costs of approximately \$67.8 million. Additionally, in July 2015, the Corporation's and ESH REIT's Board of Directors approved renovations for the remainder of the Extended Stay America-branded hotels, with estimated total costs of approximately \$157.1 million, approximately \$9.9 million of which is expected to be incurred in the fourth quarter. All renovations are expected to be completed by early 2017.

**Our Indebtedness*****ESH REIT Mortgage Loan***

On November 30, 2012, ESA P Portfolio L.L.C., ESA P Portfolio MD Borrower L.L.C., ESA Canada Properties Borrower L.L.C., ESH/TN Properties L.L.C. (each a subsidiary of ESH REIT and collectively, the Mortgage Borrower) entered into a \$2.52 billion mortgage loan comprised of three components (the 2012 Mortgage Loan), which is governed by that certain Loan Agreement, dated as of November 30, 2012, by and among the Mortgage Borrower, certain affiliates of the Mortgage Borrower, JPMorgan Chase Bank, National Association, German American Capital Corporation, Citigroup Global Markets Realty Corp., Bank of America, N.A. and Goldman Sachs Mortgage Company (as amended, the MLA). Component A is comprised of five subcomponents, three of which still have principal outstanding. The three outstanding subcomponents each have varying floating interest rates and a collective weighted-average interest rate of LIBOR plus approximately 2.8%, a total balance of approximately \$29.3

million and maturity date of December 1, 2015, with two one-year extension options. Components B and C have fixed interest rates of approximately 3.4% and 4.1%, total balances of approximately \$168.0 million and \$1,820.0 million and maturity dates of December 1, 2017 and December 1, 2019, respectively.

As of September 30, 2015, the outstanding balance on the 2012 Mortgage Loan was approximately \$2.02 billion (including approximately \$86.1 million in outstanding indebtedness classified as liabilities related to assets held for sale as of September 30, 2015). The 2012 Mortgage Loan requires monthly interest-only payments of approximately \$6.8 million. Each component of the 2012 Mortgage Loan has amounts that are freely prepayable. The below table shows freely prepayable amounts and prepayment penalties under the 2012 Mortgage Loan.

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	2012 Mortgage Loan (\$ in millions)					
	Component A		Component B		Component C	
	Freely Prepayable	Prepayment Penalty	Freely Prepayable	Prepayment Penalty	Freely Prepayable	Prepayment Penalty <sup>(1)</sup>
January 2, 2015 to January 1, 2016	\$ 29.3	0.0%	\$ 168.0	0.0%	\$ 157.5	Greater of 1.0% or Yield Maintenance (as defined)
After January 1, 2016	29.3	0.0%	168.0	0.0%	1,820.0	0.0%

(1) Prepayment penalty applies to the amount in excess of freely prepayable amounts.

Substantially all of ESH REIT's hotel properties (678 of the 682 hotel properties) serve as collateral for the 2012 Mortgage Loan.

The Corporation guarantees, under a customary recourse carve out guaranty, (a) under certain limited circumstances, losses related to the 2012 Mortgage Loan plus enforcement costs incurred by the lenders, and (b) under certain other limited circumstances, repayment of the 2012 Mortgage Loan up to an aggregate liability under this clause (b) of \$252.0 million plus enforcement costs.

In connection with the 2012 Mortgage Loan, the Loan Parties (as defined in the MLA) made certain representations, warranties and covenants customary in mortgage loan transactions, including, without limitation, regarding the ownership and operation of the hotels and standard special purpose bankruptcy remote entity provisions that are provided in order to make certain that each loan party (and certain specified affiliates) will maintain a prescribed level of separateness to forestall a substantive consolidation of such entities in the event of a bankruptcy action.

The occurrence of an Event of Default, a Debt Yield Trigger Event (a Debt Yield, as defined, of less than 9.0%) or a Guarantor Bankruptcy Event triggers a Cash Trap Event, as defined. During the period of a Cash Trap Event, any excess cash flow, after all monthly requirements (including the payment of management fees and operating expenses) are fully funded, is held by the loan service agent as additional collateral for the 2012 Mortgage Loan. As of September 30, 2015, no notice of a Cash Trap Event having been triggered had been received, as the Debt Yield was 28.6%.

A right of contribution agreement provides that if any funds of the Corporation are needed and used to service ESH REIT's obligations under the 2012 Mortgage Loan, such as in the case of a Cash Trap Event, ESH REIT shall be obligated to reimburse the Corporation, with interest, for the amount of any such funds that were applied for this purpose as soon as permitted under the 2012 Mortgage Loan. Interest shall accrue on ESH REIT's reimbursement obligation at the relevant applicable federal rate as determined under Section 1274(d) of the Code. In lieu of cash payment, the Corporation may elect, at its option, to receive payment in the form of additional shares of Class A common stock of ESH REIT of an equivalent value.

The 2012 Mortgage Loan is subject to certain customary events of default under the Loan Documents (as defined in the MLA). Upon the occurrence of an Event of Default, as defined, Lender, as defined, may, among other things, take the following actions: (i) accelerate the maturity date of the 2012 Mortgage Loan, (ii) foreclose on any or all of the mortgages securing the mortgage loan or (iii) apply amounts on deposit in the reserve accounts to pay the debt service on the 2012 Mortgage Loan.

***ESH REIT Term Loan Facility***

ESH REIT and certain of its subsidiaries entered into a \$375.0 million term loan facility (the 2014 Term Loan ) on June 23, 2014. Subject to certain conditions, the principal amount of the 2014 Term Loan may be increased from time to time up to an amount which would not cause the Consolidated Leverage Ratio, as defined, to exceed 5.25 to 1.0. The 2014 Term Loan bears interest at a rate equal to (i) LIBOR (subject to a floor of 0.75%) plus 4.25%, or (ii) a base rate (determined by reference to the highest of (1) the prime lending rate, (2) the overnight federal funds rate plus 0.5%, or (3) the one-month adjusted LIBOR rate (subject to a floor of 0.75%) plus 1.0%) plus 3.25%. The principal amount of the 2014 Term Loan is due and payable on June 24, 2019, though it may be extended with the consent of the extending lenders. There is no scheduled amortization on the 2014 Term Loan; however, subject to certain exceptions, mandatory prepayments are required up to 50% of Excess Cash Flow, based on ESH REIT 's Consolidated Leverage Ratio, each as defined.

ESH REIT made a mandatory prepayment of approximately \$8.5 million during the three months ended March 31, 2015. An additional mandatory prepayment may be required during the three months ending March 31, 2016 based on the calculation of Excess Cash Flow for the year ending December 31, 2015. As of September 30, 2015, the outstanding balance of the 2014 Term Loan was approximately \$365.1 million, net of an unaccreted discount of approximately \$1.4 million.

Obligations under the 2014 Term Loan are guaranteed by certain of ESH REIT 's existing and future direct and indirect domestic subsidiaries (with certain exceptions, including certain entities that may not provide guarantees pursuant to the 2012 Mortgage Loan). The 2014 Term Loan is secured by a first-priority security interest in substantially all of the assets of ESH REIT and the guarantors



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under the facility on a pari passu basis with its obligations under the ESH REIT Revolving Credit Facility (as defined below) (with certain exceptions, including certain entities that may not be pledged pursuant to the 2012 Mortgage Loan) subject to an intercreditor agreement that, among other things, provides for priority in favor of the ESH REIT Revolving Credit Facility under certain circumstances.

ESH REIT has the option to voluntarily repay outstanding loans under the facility at any time upon three business days' prior written notice (for LIBOR loans) or same-day notice (for base rate loans). In addition to customary breakage costs with respect to LIBOR loans, prepayment penalties include: (a) on or after June 24, 2015 but prior to December 24, 2015, an amount equal to 2.0% of the aggregate principal amount repaid; and (b) on or after December 24, 2015 but prior to June 24, 2016, an amount equal to 1.0% of the aggregate principal amount repaid. Repayments on or after June 24, 2016 require no prepayment penalty.

The 2014 Term Loan contains a number of covenants that, among other things and subject to certain exceptions, restrict ESH REIT's ability and the ability of its subsidiaries to incur additional indebtedness, pay distributions and make other restricted payments, engage in transactions with ESH REIT's affiliates, sell all or substantially all of its assets, merge and create liens. The 2014 Term Loan also contains certain customary affirmative covenants and events of default. During a Trigger Event, an Adjusted Trigger Event, a Default or an Event of Default, each as defined in the 2014 Term Loan, ESH REIT is restricted from making cash distributions, subject to certain exceptions. As of September 30, 2015, none of these events had occurred.

***ESH REIT Senior Notes***

On May 15, 2015, ESH REIT issued \$500.0 million of 5.25% senior notes due in 2025 (the "2025 Notes") under an indenture (the "Indenture") with Deutsche Bank Trust Company Americas, as trustee, at a price equal to 100% of their par value in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. ESH REIT used the proceeds and cash on hand to repay \$500.0 million of the outstanding balance under its 2012 Mortgage Loan. The 2025 Notes mature on May 1, 2025 and bear interest at a fixed rate of 5.25% per annum, payable semi-annually in arrears on May 1 and November 1 of each year, beginning November 1, 2015.

In connection with the issuance of the 2025 Notes, ESH REIT incurred costs of approximately \$11.5 million, inclusive of underwriter, credit rating agency and attorney fees and other costs. These issuance costs are included in deferred financing costs in the accompanying unaudited condensed consolidated balance sheet as of September 30, 2015 and will be amortized to net interest expense over the term of the 2025 Notes.

The 2025 Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis by each of ESH REIT's subsidiaries that guarantee ESH REIT's obligations under the 2014 Term Loan and the ESH REIT Revolving Credit Facility. The 2025 Notes rank equally in right of payment with ESH REIT's existing and future senior unsecured indebtedness, and senior in right of payment to all future subordinated indebtedness, if any. The 2025 Notes are effectively junior to any of ESH REIT's secured indebtedness to the extent of the value of the assets securing such indebtedness.

ESH REIT may redeem the 2025 Notes at any time on or after May 1, 2020, in whole or in part, at a redemption price equal to 102.625% of the principal amount, declining annually to 100% of the principal amount from May 1, 2023 and thereafter, plus accrued and unpaid interest. Prior to May 1, 2020, ESH REIT may redeem the 2025 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a "make-whole" premium, as defined in the Indenture, plus accrued and unpaid interest. Prior to May 1, 2018, subject to certain conditions, ESH REIT may redeem up to 35% of the aggregate principal amount of the 2025 Notes at a redemption price equal to 105.250% of the aggregate principal amount thereof, plus accrued and unpaid interest, with the net cash proceeds from certain equity

offerings, provided 65% of the original amount of the principal remains outstanding after the occurrence of each such redemption. Upon a Change of Control, as defined, holders of the 2025 Notes have the right to require ESH REIT to redeem the 2025 Notes at 101% of the principal amount, plus accrued and unpaid interest.

The Indenture contains a number of customary covenants that, subject to certain exceptions, limit ESH REIT's ability and the ability of certain of its subsidiaries to incur additional debt, create certain liens, pay dividends or distributions, make certain investments and other payments, enter into affiliate transactions, sell assets or merge, consolidate or transfer substantially all of their assets, among other things. ESH REIT was in compliance with all covenants set forth in the Indenture as of September 30, 2015.

***ESH REIT Revolving Credit Facility***

ESH REIT entered into a revolving credit facility (the ESH REIT Revolving Credit Facility) on November 18, 2013. The ESH REIT Revolving Credit Facility permits borrowings up to \$250.0 million by ESH REIT. Subject to the satisfaction of certain criteria, ESH REIT is able to request to increase the facility to an amount up to \$350.0 million. The facility provides for the issuance of up to \$50.0 million of letters of credit as well as borrowings on same day notice, referred to as swingline loans, in an amount up to \$20.0 million. Borrowings under the facility bear interest at a rate equal to an adjusted LIBOR rate or a base rate determined by reference to the highest of (1) the prime lending rate, (2) the overnight federal funds rate plus 0.5% or (3) the one-month adjusted LIBOR rate plus 1.0%, plus an applicable margin of 2.00% for base rate loans and 3.00% for LIBOR loans. There is no scheduled amortization under the facility; the principal amount is due and payable on November 18, 2016, subject to a one-year extension option.

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As of September 30, 2015, the outstanding balance drawn on the ESH REIT Revolving Credit Facility was \$0 and the amount of borrowing capacity was \$250.0 million.

In addition to paying interest on any outstanding principal under the ESH REIT Revolving Credit Facility, ESH REIT is required to pay a fee in respect of unutilized commitments. If 50.0% or more of the facility is drawn, the fee is 0.175%, while if less than 50.0% of the facility is drawn, such fee is 0.35%. ESH REIT is also required to pay customary letter of credit and agency fees.

If at any time outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the ESH REIT Revolving Credit Facility exceed the lenders' commitments at such time, ESH REIT will be required to repay outstanding loans or cash collateralize letters of credit at 105% in an aggregate amount equal to such excess, with no reduction of the commitment amount.

ESH REIT's obligations under the ESH REIT Revolving Credit Facility are guaranteed by its existing and future direct and indirect domestic subsidiaries (with certain exceptions, including certain entities that may not provide guarantees pursuant to the 2012 Mortgage Loan). The ESH REIT Revolving Credit Facility is secured by a first-priority security interest in substantially all of the assets of ESH REIT and the guarantors under the facility (with certain exceptions, including certain entities that may not be pledged pursuant to the 2012 Mortgage Loan).

The ESH REIT Revolving Credit Facility contains a number of covenants that, among other things and subject to certain exceptions, restrict ESH REIT's ability and the ability of its subsidiaries to incur additional indebtedness, pay distributions and make other restricted payments, engage in transactions with ESH REIT's affiliates, sell all or substantially all of its assets, merge and create liens. The ESH REIT Revolving Credit Facility also contains certain customary affirmative covenants and events of default.

If any loans or obligations are outstanding during any fiscal quarter, the ESH REIT Revolving Credit Facility requires that the Consolidated Leverage Ratio, as defined, calculated as of the end of such fiscal quarter, be less than or equal to 9.25 to 1.0 for fiscal quarters ended on or before December 31, 2015 and 9.00 to 1.0 for fiscal quarters ended on or after January 1, 2016. Further, if loans or obligations are outstanding during any calendar month, the ESH REIT Revolving Credit Facility requires that the Debt Yield or the Adjusted Debt Yield, each as defined, not be less than 9.0% as of the last day of such calendar month.

In order to avoid a Trigger Event or an Adjusted Trigger Event, the ESH REIT Revolving Credit Facility requires a Debt Yield and an Adjusted Debt Yield, each as defined, of at least 11.5%. The occurrence of a Trigger Event or an Adjusted Trigger Event would require ESH REIT to repay the outstanding facility balance and would restrict its ability to make additional borrowings. As of September 30, 2015, the Debt Yield and Adjusted Debt Yield were 28.6% and 20.0%, respectively, and no Trigger Event or Adjusted Trigger Event had occurred.

***Corporation Revolving Credit Facility***

The Corporation entered into a revolving credit facility (the Corporation Revolving Credit Facility) on November 18, 2013. The Corporation Revolving Credit Facility permits borrowings up to \$50.0 million. The facility provides for the issuance of up to \$50.0 million of letters of credit as well as borrowings on same day notice, referred to as swingline loans, in an amount up to \$20.0 million. Borrowings under the facility bear interest at a rate equal to an adjusted LIBOR rate or a base rate determined by reference to the highest of (1) the prime lending rate, (2) the overnight federal funds rate plus 0.5% or (3) the one-month adjusted LIBOR rate plus 1.0%, plus an applicable margin of 2.75% for base rate loans and 3.75% for LIBOR loans. There is no scheduled amortization under the facility; the principal amount outstanding is due and payable in full at maturity, November 18, 2016, subject to a one-year extension option.

As of September 30, 2015, the outstanding balance drawn on the Corporation Revolving Credit Facility was \$0 and the amount of borrowing capacity under the facility was \$46.4 million, reduced from \$50.0 million due to a \$3.6 million letter of credit outstanding.

In addition to paying interest on any outstanding principal under the Corporation Revolving Credit Facility, the Corporation is required to pay a fee in respect of unutilized commitments. If 50.0% or more of the facility is drawn, the fee is 0.175%, while if less than 50.0% of the facility is drawn, such fee is 0.35%. The Corporation is also required to pay customary letter of credit and agency fees.

If at any time outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the Corporation Revolving Credit Facility exceed the lenders' commitments at such time, the Corporation will be required to repay outstanding loans or cash collateralize letters of credit at 105% in an aggregate amount equal to such excess, with no reduction of the commitment amount.

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The Corporation's obligations under the Corporation Revolving Credit Facility are guaranteed by its existing and future direct and indirect domestic subsidiaries (with certain exceptions, including, but not limited to, ESH REIT and its subsidiaries and certain other entities that may not provide guarantees pursuant to ESH REIT's 2012 Mortgage Loan and 2014 Term Loan). The Corporation Revolving Credit Facility is secured by a first-priority security interest in substantially all of the assets of the Corporation and the guarantors under the facility (with certain exceptions, including certain entities that may not be pledged pursuant to the 2012 Mortgage Loan and 2014 Term Loan).

The Corporation Revolving Credit Facility contains a number of covenants that, among other things and subject to certain exceptions, restrict the Corporation's ability and the ability of its subsidiaries (other than, with certain exceptions, ESH REIT and its subsidiaries) to incur additional indebtedness, pay distributions and make other restricted payments, engage in transactions with the Corporation's affiliates, sell all or substantially all of its assets, merge and create liens. The Corporation Revolving Credit Facility also contains certain customary affirmative covenants and events of default.

If any loans or obligations are outstanding during any fiscal quarter, the Corporation Revolving Credit Facility requires that the Consolidated Leverage Ratio, as defined, calculated as of the end of such fiscal quarter, be less than or equal to 9.0 to 1.0 for fiscal quarters ended on or before December 31, 2015 and 8.75 to 1.0 for fiscal quarters ended on or after January 1, 2016. Further, if loans or obligations are outstanding during any calendar month, the Corporation Revolving Credit Facility requires that the Debt Yield and the Adjusted Debt Yield, each as defined, not be less than 9.0% as of the last day of such calendar month.

In order to avoid a Trigger Event or an Adjusted Trigger Event, each as defined, the Corporation Revolving Credit Facility requires a Debt Yield and an Adjusted Debt Yield of at least 12.0%. The occurrence of a Trigger Event or an Adjusted Trigger Event would require the Corporation to repay the outstanding facility balance and would restrict its ability to make additional borrowings. As of September 30, 2015, the Debt Yield and Adjusted Debt Yield were 28.6% and 20.0%, respectively, and no Trigger Event or Adjusted Trigger Event had occurred.

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### ***Corporation Mandatorily Redeemable Preferred Stock***

The Corporation has authorized 350.0 million shares of preferred stock, par value \$0.01 per share, of which 21,202 shares of mandatorily redeemable voting preferred stock were issued and outstanding as of September 30, 2015. Dividends on these preferred shares are payable quarterly in arrears at a rate of 8.0% per year. With respect to dividend, distribution and liquidation rights, the 8.0% voting preferred stock ranks senior to the Corporation's common stock. Holders of the 8.0% voting preferred stock are generally entitled to one vote for each share and will vote together with the Corporation common stock as a single class on all matters that the Corporation's common shareholders are entitled to vote upon. On or after November 15, 2018, a holder of the 8.0% voting preferred stock has the right to require the Corporation to redeem in cash the 8.0% voting preferred stock at \$1,000 per share plus any accumulated but unpaid dividends. On November 15, 2020, the Corporation shall mandatorily redeem all of the 8.0% voting preferred stock at \$1,000 per share plus any accumulated but unpaid dividends.

Due to the fact that the outstanding 8.0% voting preferred stock is mandatorily redeemable by the Corporation, it is classified as a liability on the Company's unaudited condensed consolidated balance sheets. Dividends on these preferred shares are classified as interest expense in the Company's unaudited condensed consolidated statements of operations.

### **Off-Balance Sheet Arrangements**

Neither the Corporation nor ESH REIT have off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Critical Accounting Policies**

Our discussion and analysis of our historical financial condition and results of operations is based on the Company's and ESH REIT's historical consolidated financial statements. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ significantly from these estimates and assumptions.

A summary of our critical accounting policies are described in our combined annual report on Form 10-K filed with the SEC on February 26, 2015 under Management's Discussion and Analysis of Financial Condition and Results of Operations and as noted below. These critical accounting policies include investment in property and equipment, impairment of property and equipment, assets held for sale, discontinued operations, revenue recognition, income taxes, equity-based compensation and consolidation policies. We believe these policies require material subjective or complex judgments and have the most significant impact on our financial condition and results of operations. We evaluate estimates, assumptions and judgments on an ongoing basis, based on information that is then available to us, our experience and various matters that we believe are reasonable and appropriate for consideration under the circumstances. There have been no material changes to our critical accounting policies as compared to those included in our combined annual report on Form 10-K filed with the SEC on February 26, 2015, other than those noted below.

**Assets Held For Sale** The Company classifies assets as held for sale when management commits to a formal plan to sell the assets, actively seeks a buyer for the assets and the consummation of a sale is considered probable and is expected within one year. The Company considers the consummation of a sale probable once a purchase and sale agreement has been executed, the buyer has a significant non-refundable deposit at risk and no significant financing

contingencies exist. Upon designating an asset as held for sale, the Company stops recognizing depreciation expense and records the asset at the lower of its carrying value, which includes allocable goodwill, or its estimated fair value, less estimated costs to sell. Any such adjustment in the carrying value is recognized as an impairment charge. As of September 30, 2015, the Company classified certain assets and their related liabilities as assets held for sale and liabilities related to assets held for sale, respectively, in the accompanying unaudited condensed consolidated balance sheet.

**Discontinued Operations** Effective January 1, 2014, the Company early adopted Accounting Standards Update No. 2014-08 issued by the Financial Accounting Standards Board ( FASB ) which addresses the classification and reporting of discontinued operations. This update defines discontinued operations as a component of an entity that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This guidance generally results in reporting discontinued operations less frequently than under the previous accounting standard. For example, the sale of the two hotels in July 2014 was not reported as discontinued operations as it did not represent a strategic shift that had a major effect on the Company's operations or financial results, nor is the anticipated sale of the portfolio of 53 hotel properties and certain intellectual property of Crossland Economy Studios, for which the assets and related liabilities are classified as held for sale as of September 30, 2015, reported as discontinued operations as it does not represent a strategic shift that will have a major effect on the Company's operations or financial results after it closes.

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**Recent Accounting Pronouncements**

For discussion of recently issued accounting standards, see Note 2 to each of the unaudited condensed consolidated financial statements of Extended Stay America, Inc. and of ESH Hospitality, Inc., both of which are included in this combined quarterly report on Form 10-Q.



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### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Both the Corporation and ESH REIT may seek to reduce earnings and cash flow volatility associated with changes in interest rates and foreign currency exchange rates by entering into financial arrangements to provide a hedge against a portion of the risks associated with such volatility, when applicable. We will continue to have exposure to such risks to the extent they are not hedged. We may enter into derivative financial arrangements to the extent they meet the objectives described above and do not use derivatives for trading or speculative purposes.

#### ***The Corporation***

As of September 30, 2015, the Corporation had minimal exposure to market risk from changes in interest rates because it had no variable rate debt as there were no outstanding amounts drawn on the Corporation Revolving Credit Facility. The Corporation's exposure to market risk from changes in interest rates may increase in future periods should the Corporation incur variable rate debt, including draws on the Corporation Revolving Credit Facility.

#### ***ESH REIT***

As of September 30, 2015, approximately \$394.3 million of ESH REIT's outstanding indebtedness of approximately \$2.9 billion (including approximately \$86.1 million in outstanding indebtedness classified as liabilities related to assets held for sale) had a variable rate of interest. As of September 30, 2015, subsidiaries of ESH REIT are counterparties to an interest rate cap on one-month LIBOR at 3.0% with a \$348.0 million notional amount and a maturity date the same as that of 2012 Mortgage Loan Component A. If market rates of interest on ESH REIT's variable rate debt fluctuate by 1.0%, interest expense would increase or decrease, and depending on the rate movement, ESH REIT's future earnings and cash flows would fluctuate by approximately \$2.0 million annually, assuming that the amount outstanding under ESH REIT's variable rate debt remains at approximately \$394.3 million.

As of September 30, 2015, less than 1.5% of the book value of ESH REIT's hotels are owned outside the U.S. ESH REIT has exposure to market risk from changes in foreign currency exchange rates for its Canadian hotels. A fluctuation of 1.0% in the exchange rate between the U.S. dollar and the Canadian dollar would result in a foreign currency transaction gain or loss of approximately \$0.2 million.

### **Item 4. Controls and Procedures**

#### **Controls and Procedures (Extended Stay America, Inc.)**

#### **Disclosure Controls and Procedures**

As of September 30, 2015, Extended Stay America, Inc. reviewed, under the direction of the Chief Executive Officer and Chief Financial Officer, the disclosure controls and procedures of Extended Stay America, Inc., as defined in Exchange Act Rule 13a-15(e). Based upon and as of the date of that review, the Chief Executive Officer and Chief Financial Officer of Extended Stay America, Inc. concluded that the disclosure controls and procedures of Extended Stay America, Inc. were effective to ensure that information required to be disclosed in the reports that Extended Stay America, Inc. files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the management of Extended Stay America, Inc., including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

#### **Changes in Internal Control over Financial Reporting**

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Effective August 24, 2015, James L. Donald, Chief Executive Officer of the Corporation, resigned from Extended Stay America, Inc. and Gerardo I. Lopez was appointed as President and Chief Executive Officer of Extended Stay America, Inc.

There were no changes in Extended Stay America, Inc.'s internal control over financial reporting that occurred during the most recent fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, Extended Stay America, Inc.'s internal control over financial reporting.

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**Controls and Procedures (ESH Hospitality, Inc.)**

**Disclosure Controls and Procedures**

As of September 30, 2015, ESH Hospitality, Inc. reviewed, under the direction of the Chief Executive Officer and Chief Financial Officer, the disclosure controls and procedures of ESH Hospitality, Inc., as defined in Exchange Act Rule 13a-15(e). Based upon and as of the date of that review, the Chief Executive Officer and Chief Financial Officer of ESH Hospitality, Inc. concluded that the disclosure controls and procedures of ESH Hospitality, Inc. were effective to ensure that information required to be disclosed in the reports that ESH Hospitality, Inc. files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the management of ESH Hospitality, Inc., including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

**Changes in Internal Control over Financial Reporting**

Effective August 24, 2015, James L. Donald, Chief Executive Officer of ESH Hospitality, Inc., resigned from ESH Hospitality, Inc. and Gerardo I. Lopez was appointed as President and Chief Executive Officer of ESH Hospitality, Inc.

There were no changes in ESH Hospitality, Inc.'s internal control over financial reporting that occurred during the most recent fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, ESH Hospitality, Inc.'s internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are from time to time subject to various claims and lawsuits incidental to our business. In the opinion of management, these claims and suits, individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial statements, results of operations or liquidity or ESH REIT's consolidated financial statements, results of operations or liquidity.

**Item 1A. Risk Factors**

There have been no material changes to our principal risks that we believe are material to our business, results of operations and financial condition, from the risk factors previously disclosed in the combined annual report on Form 10-K filed with the SEC on February 26, 2015, which is accessible on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Item 2. Unregistered Sale of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information.**

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRA), which added Section 13(r) of the Exchange Act, the Company hereby incorporates by reference herein Exhibit 99.1 of this report, which includes disclosures publicly filed and/or provided to Blackstone by Travelport Limited and Travelport Worldwide Limited, which may be considered the Company's affiliates.

**Table of Contents****Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
2.1*	Purchase and Sale Agreement, by and between ESA P Portfolio L.L.C., ESH/TN Properties L.L.C and ESH Strategies Branding LLC, collectively, as Seller, and DW Crossland Owner LLC, as Buyer, dated as of September 18, 2015 (filed as Exhibit 2.1 to the Registrants' Current Report on Form 8-K (File No. 001-36190) filed September 21, 2015, and incorporated herein by reference).
4.1	Joinder to Registration Rights Agreement, by and among Extended Stay America, Inc., ESH Hospitality, Inc. and the other parties named therein, dated September 29, 2015.
31.1	Certification of the Chief Executive Officer of Extended Stay America, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of Extended Stay America, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of the Chief Executive Officer of ESH Hospitality, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.4	Certification of the Chief Financial Officer of ESH Hospitality, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer of Extended Stay America, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Executive Officer and the Chief Financial Officer of ESH Hospitality, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Section 13(r) disclosure.
101.1.INS	XBRL Instance Document
101.1.SCH	XBRL Taxonomy Extension Schema Document
101.1.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.1.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.1.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.1.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Management contract or compensatory plan or arrangement.

\* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby agrees to furnish supplemental copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission; provided, however, that the Company may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

**EXTENDED STAY AMERICA, INC.**

Date: October 27, 2015

By: /s/ Gerardo I. Lopez  
Gerardo I. Lopez  
President and Chief Executive Officer

Date: October 27, 2015

By: /s/ Jonathan S. Halkyard  
Jonathan S. Halkyard  
Chief Financial Officer

**ESH HOSPITALITY, INC.**

Date: October 27, 2015

By: /s/ Gerardo I. Lopez  
Gerardo I. Lopez  
President and Chief Executive Officer

Date: October 27, 2015

By: /s/ Jonathan S. Halkyard  
Jonathan S. Halkyard  
Chief Financial Officer