

## EXTENDED STAY HOTELS RESTRUCTURING TERM SHEET<sup>1</sup>

In an attempt to facilitate an expeditious and value maximizing restructuring, this non-binding term sheet (the "*Term Sheet*") dated as of June 12, 2009, outlines the principal economic terms of a proposed restructuring pursuant to a plan of reorganization (the "*Plan*") under chapter 11 of title 11 of the United States Code (the "*Bankruptcy Code*") of the outstanding indebtedness and equity of Extended Stay Hotels, Inc., Homestead Village L.L.C. and certain of their wholly-owned direct and indirect subsidiaries (collectively, the "*Companies*"), including, without limitation, (i) the obligations outstanding under that certain \$4.1 billion mortgage loan (the "*Mortgage Loan*") dated as of June 11, 2007, among Wachovia Bank, National Association, Bear Stearns Commercial Mortgage, Inc. and Bank of America, N.A., as co-lenders, and the borrower entities signatory thereto, and the related certificates (the "*Certificates*") that represent 100% of the beneficial interests in the Mortgage Loan; (ii) the obligations outstanding under those certain mezzanine loans (collectively, the "*Mezzanine Loans*") dated as of June 11, 2007, among the borrower entities and financial institutions signatory thereto in the aggregate amount of approximately \$3.3 billion; (iii) the outstanding preferred equity (the "*Preferred Equity*"); and (iv) the outstanding common equity and other equity interests (the "*Common Equity*").

This Term Sheet does not address all of the terms and conditions that would need to be agreed to in order to have a consensual Plan. Without limiting the generality of the foregoing, this Term Sheet is subject to the parties reaching agreement on a satisfactory use of cash collateral.

**Mortgage Loan:** Pursuant to the Plan, the Trustee for the Trust established pursuant to that certain Trust and Servicing Agreement dated as of August 1, 2007 between Wachovia Large Loan, Inc., Wachovia Bank, National Association, and Wells Fargo Bank, N.A. (the "*Trust and Servicing Agreement*"), as lender under the Mortgage Loan, will be entitled to receive in full and complete satisfaction of its claims arising under the Mortgage Loan and in exchange for the Mortgage Loan, but subject to the exchange for certain Certificates described below, (i) \$1.8 billion in principal amount of a new three-tranche first lien mortgage loan (the "*New First Lien Mortgage Loan*"), the terms of which are set forth on **Exhibit A** and shall be generally consistent with the terms of the Mortgage Loan, but shall include a to be negotiated financial covenant that is reasonably satisfactory to the

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<sup>1</sup> The proposed terms and conditions set forth in this Term Sheet are intended merely as an outline of certain material terms of a potential transaction and do not constitute an offer, agreement or binding commitment by or on behalf of any party. This Term Sheet does not include a description of all of the terms, conditions and other provisions that would be contained in definitive documentation relating to the proposed transaction and is not intended to limit the scope of discussion and negotiation of any matters not consistent with the specific matters set forth herein. This Term Sheet is also not an offer for the purchase, sale or subscription of or solicitation or invitation of any offer to buy, sell or to subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.



holders of the New First Lien Mortgage Loan and the holders of Certificates that are proponents of this Term Sheet (the “*Supporting Holders*”), (ii) up to \$775 million in principal amount of a new second lien mortgage loan secured by second priority mortgages and evidenced by new second lien mortgage notes (the “*New Second Lien Notes*”), the terms of which are set forth on **Exhibit B** and shall be generally consistent with the terms of the Mortgage Loan, which mortgages shall be subject to an intercreditor agreement in form satisfactory to the holders of both the New First Lien Mortgage Loan and the New Second Lien Notes, (iii) up to \$471.25 million of new preferred stock (“*New Preferred Stock*”) to be issued by NewCo (as defined below)<sup>2</sup>, the terms of which are set forth on **Exhibit C** and (iv) 100% of the new common equity (the “*New Common Stock*”) to be issued by NewCo based on the Plan value of \$3.3 billion.

**Mortgage Loan  
Certificates:**

Except as set forth below, the Certificates will remain outstanding and will continue to represent 100% of the beneficial interest in the New First Lien Mortgage Loan. The Certificates will be serviced by the New First Lien Mortgage Loan pursuant to the terms thereof and the Trust and Servicing Agreement.

Pursuant to the Plan, the principal amount of the New First Lien Mortgage Loan will be less than the Mortgage Loan and will generate less debt service payments for the Trust to satisfy distributions on account of all classes of the Certificates. As a result, (i) the holders of the A4 Certificates will receive the New Second Lien Notes in lieu of retaining and in exchange for their A4 Certificates and (ii) all other classes of Certificates that are junior to Classes A1 through A4 as set forth on Exhibits C through D (the “*Junior Certificates*”) will have Realized Losses (as defined in the Trust and Servicing Agreement) and therefore will not be entitled to interest or principal payments on account of their Certificates. However, in order to provide holders of Junior Certificates the value and recovery on account of their Certificates that they are entitled to receive based on the value of the Companies, pursuant to the Plan, each class of holders of Junior Certificates will receive the New Preferred Stock and New Common Stock (collectively, the “*New Securities*”) (that would otherwise have been provided to the Trustee for the Trust as set forth above), in lieu of retaining and in exchange for their Certificates.

The holders of the A4 Certificates will receive in exchange for the A4 Certificates the New Second Lien Notes as set forth on **Exhibit B**, with each holder receiving its pro rata share based on its holdings as compared to the aggregate holdings within the A4 class. The

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<sup>2</sup> The structure of the reorganized entity is to be determined based on the tax implications to the Companies and their constituencies and other considerations.



allocation and amount of the New Securities each class of Junior Certificates will receive in exchange for the Junior Certificates as provided for above are set forth on **Exhibits C and D**, with each Certificate holder in such class of Junior Certificates receiving its pro rata share based on its holdings as compared to the aggregate holdings of the class.

As set forth on **Exhibit D**, holders of Junior Certificates in classes H through M will not be entitled to a direct distribution of either the New Second Lien Notes or the New Securities. In exchange for their Junior Certificates, holders of Junior Certificates in classes H through M will receive the call options (the “*Call Options*”) described below.

In addition, the holders of A4 Certificates and/or the holders of Junior Certificates who are entitled to receive New Second Lien Notes or New Securities in exchange for their Certificates (the “*Eligible Holders*”) will have the option to elect to receive, in lieu of all or a portion of their respective interests in the New Second Lien Notes or New Securities, new unsecured debt (“*New Unsecured Debt*”) to be issued by NewCo in the aggregate amount of up to \$250 million. The New Unsecured Debt will have a nine-year term and interest will be payable in cash at a six percent annual rate. The ratio of New Second Lien Notes to New Unsecured Debt will be three to two (such that for every \$3 in New Second Lien Notes an Eligible Holder is entitled to receive under the Plan, such Eligible Holder will be entitled to elect to receive \$2 in New Unsecured Debt in lieu of the New Second Lien Notes). The ratio of New Securities to New Unsecured Debt will be three to one (such that for every \$3 in New Securities an Eligible Holder is entitled to receive under the Plan, such Eligible Holder will be entitled to elect to receive \$1 in New Unsecured Debt in lieu of the New Securities). Eligible Holders of New Second Lien Notes will have priority over Eligible Holders of New Securities to elect to receive New Unsecured Debt, subject to a cap of \$200 million (“*New Second Lien Notes Cap*”) applicable only if Eligible Holders of New Securities elect to receive more than \$50 million of New Unsecured Debt. If the New Second Lien Notes Cap applies to electing Eligible Holders of the New Second Lien Notes, the New Unsecured Debt will be distributed among such electing Eligible Holders pro rata in an aggregate amount not to exceed the New Second Lien Notes Cap. The aggregate amount of New Unsecured Debt to be issued on account and in lieu of New Securities shall not exceed \$100 million (the “*New Securities Cap*”). To the extent that Eligible Holders that are otherwise entitled to New Securities elect to receive, in the aggregate, greater than the New Securities Cap of New Unsecured Debt, the New Unsecured Debt will be distributed among such electing Eligible Holders pro rata in

an aggregate amount not to exceed the New Securities Cap.

**Mezzanine Loans:** Based upon the valuation of the Companies, the lenders under the Mezzanine Loans are not entitled to receive a distribution on account of their claims arising under the Mezzanine Loans. Therefore, the Mezzanine Loans and the claims arising thereunder will be extinguished and discharged and holders thereof will not receive a distribution on account of such claims.

However, in order to resolve and settle any and all potential claims or causes of action the holders of the Mezzanine Loans may assert or pursue against the Companies or their related entities, with the consent of the holders of the Mortgage Loan pursuant to the Plan, the holders of the Mezzanine Loans will receive the Call Options described below.

**Preferred Equity:** Based upon the valuation of the Companies, the holders of the Preferred Equity interests are not entitled to receive a distribution on account of their interests. Therefore, the Preferred Equity interests will be extinguished and holders thereof will not receive a distribution on account of such interests.

However, in order to resolve and settle any and all potential claims or causes of action the holders of the Preferred Equity may assert or pursue against the Companies or their related entities, with the consent of the holders of the Mortgage Loan pursuant to the Plan, the holders of the Preferred Equity Interests will receive the Call Options described below and warrants (the “*Warrants*”) for up to 10% of New Common Stock, the terms of which are set forth on **Exhibit E**.

**Common Equity:** Common Equity interests will be extinguished and holders thereof will not receive a distribution.

**Call Options:** The Call Options are transferable options to purchase the New Securities distributed to holders of Certificates in classes B through G at a price equal to par plus accrued interest in respect of the claims of such classes B through G, subject to the adjustment described below. The Call Options will be exercisable on the 30<sup>th</sup> day after the effective date of the Plan (the “*Effective Date*”). The Call Options will represent the right to purchase, in the aggregate, 100% of the New Securities distributed to holders of Certificates in classes B through G. If any “person” (including any group), as such term is defined in section 13(d)(3) of the Securities Exchange Act of 1934, exercises Call Options to purchase greater than 50% of the then outstanding New Securities, such individual or group shall be required to purchase 100% of the then outstanding New Securities.



With respect to the Junior Certificates, the Call Options will be distributed to holders in classes H through M of the Junior Certificates and each holder of such Junior Certificates will receive its pro rata portion of the Call Options based on its holdings within its class of Junior Certificates. With respect to the Mezzanine Loans, the Call Options will be distributed to lenders under Mezzanine Loans A through J and each lender under such Mezzanine Loans will receive its pro rata portion of the Call Options based on its holdings within its Mezzanine Loan tranche. With respect to the Preferred Equity, the Call Options will be distributed to holders of the A-1, A-2 and A-3 Units and each holder will receive its pro rata portion of the Call Options based on its holdings within the Units.

The right to exercise the Call Options will be based on the seniority of the holders receiving Call Options in reverse order with the most junior constituents having priority to exercise (such that the holders of Preferred Equity will have priority over all other holders of the Call Options to exercise the Call Options and the lenders under the Mezzanine Loans will have priority to exercise over the holders of the Junior Certificates). Within the tranches of the Mezzanine Loans and the classes of Junior Certificates, the most junior tranches/classes will have priority to exercise over the senior tranches/classes. Each holder of a Call Option will have the right to oversubscribe for the New Securities to the extent that other holders of Call Options with the same priority do not exercise their Call Options.

To the extent necessary, there will be a price adjustment for the Call Options based on the seniority of the exercising holders such that the price for an exercising holder equals par plus accrued interest in respect of the claims of all classes of Certificates in classes B through G plus the claims of only those classes of Junior Certificates and/or tranches of Mezzanine Loans that are senior to the exercising class and have also elected to exercise their Call Options. By way of example, if holders in Certificate class H elect to purchase 10% of the New Securities and holders in Certificate class M elect to purchase 100% of the New Securities (and no other holders of the Call Options elect to exercise), the exercise price for 90% of the New Securities purchased by the holders in Certificate class M will equal par plus accrued interest in respect of the claims of classes of Certificates B through G and the exercise price for 10% of the New Securities purchased by the holders in Certificate class M will equal par plus accrued interest in respect of the claims of the Certificates in class H.

**NewCo:**

Subject to the results of the tax review and other diligence, a new holding company ("*NewCo*") will be created to hold all of the equity interests of the Mortgage Borrowers from and after the Effective Date pursuant to organizational documents satisfactory to the parties thereto and Supporting Holders. NewCo will issue the New Securities. Control of HVM L.L.C., the Companies' current management company, and its subsidiaries and affiliates, and all other assets necessary to run the Companies' business as a going-concern, including the trademarks for the Extended Stay America, Studio Plus, Crossland and Extended Stay Deluxe brands, along with any variations of those names and other intellectual property owned by BHAC Capital IV LLC, will also be contributed to NewCo in exchange for, in part, the releases described below, and the Warrants and Call Options described above.



**Management  
Arrangements:**

Pursuant to the Plan, the Companies' existing management agreements will be rejected and NewCo will enter into new management agreements with the Companies' current management mutually agreed to by Supporting Holders and management. NewCo will also enter into new compensation arrangements with management that are mutually agreed to by Supporting Holders and management, which may include potential equity participations based on the performance of the businesses. It is understood that the Management Arrangements shall be structured to provide incentive compensation that aligns the interests of management with those of both the holders of the New Preferred Stock and New Common Stock. This shall be achieved either by creating an incentive compensation structure to the returns on both the New Preferred Stock and New Common Stock or through an alternate structure mutually agreeable to the Companies, management, and the Supporting Holders.

**Releases and  
Exculpation:**

The Plan will provide for customary exculpation for all parties in connection with the formulation, solicitation and consummation of the Plan and mutual releases of individuals who will remain with the management company for NewCo, and certain other third parties.

The holders of the Mortgage Loan and the holders of the Mezzanine Loans and Preferred Equity interests that receive a distribution under the Plan (the "*Accepting Holders*") will release David Lichtenstein from liability under his guarantee of the Mortgage Loan and the Mezzanine Loans, except with respect to the filing of the chapter 11 cases (the "*Bankruptcy Guarantee*"). Prior to the Effective Date, Accepting Holders will agree not to exercise remedies under the Bankruptcy Guarantee; provided however, that to the extent a claim under the Bankruptcy Guarantee with respect any of the Mezzanine Loans or the Mortgage Loan is asserted against Mr. Lichtenstein, the Accepting Holders will agree to join in such action and/or exercise remedies with respect to the Bankruptcy Guarantee; provided further, that to the extent an Accepting Holder is entitled to a recovery on account of the Bankruptcy Guarantee, such holder will turn-over and contribute such recovery to NewCo. On the Effective Date, Accepting Holders will be deemed to have transferred to NewCo all of their rights and remedies under the Bankruptcy Guarantee, including all rights to enforcement and collection.

In exchange for Mr. Lichtenstein's agreement to transfer to NewCo his interest in HVM Manager LLC, and the resulting transfer of control of HVM L.L.C. and its subsidiaries and affiliates as described above, in addition to the releases set forth herein, subject to the occurrence of and on the Effective Date, NewCo will agree to



provide Mr. Lichtenstein with an indemnity (the “*Indemnity*”) for any final and non-appealable damages claim against him due to the filing of the bankruptcy proceeding in breach of the Bankruptcy Guarantees relating to the Mezzanine Loans and the Mortgage Loan for (i) with respect to the Bankruptcy Guarantees relating to Mezzanine Loans, up to \$50 million and (ii) with respect to the all of the Bankruptcy Guarantees, up to \$100 million in the aggregate. For the purposes of clarity, NewCo’s undertaking to provide the Indemnity is subject to the occurrence of the Effective Date of the Plan that is consistent in all respects to the terms of this Term Sheet and has been consented to by the Supporting Holders.

As a condition to NewCo’s undertaking to provide the Indemnity, at all times Mr. Lichtenstein is obligated to diligently and vigorously defend against any claims and causes of action asserted against him under the Bankruptcy Guarantees. During the chapter 11 cases, any proposed settlement of claims and causes of action asserted against Mr. Lichtenstein under the Bankruptcy Guarantees must be reasonably satisfactory to the Supporting Holders and subject to Bankruptcy Court approval. On and after the Effective Date, as a further condition to NewCo’s undertaking to provide the Indemnity, NewCo, in its sole discretion will have the right to control the defense, prosecution and/or settlement of any claims, causes of action, litigation or other proceeding commenced against Mr. Lichtenstein, including, without limitation, the selection of counsel and the timing and circumstances of any strategy, defense, appeals, settlement negotiations and the like, and Mr. Lichtenstein will be obligated to cooperate fully and completely with and assist NewCo with respect to such actions and proceedings and will refrain from taking any action or failing to take any action that is inconsistent with or would hinder the litigation and/or settlement efforts and strategy as determined by NewCo in its sole discretion. Without in any way limiting the foregoing, NewCo will agree to provide Mr. Lichtenstein with information regarding material events in any litigation or other proceeding, as well as with the opportunity to provide input on a regular basis and will consult with Mr. Lichtenstein with respect to the terms of a settlement. To the extent Mr. Lichtenstein fails to satisfy his obligations to defend, and to cooperate and facilitate the defense and/or prosecution of, any claims or causes of action arising out of the Bankruptcy Guarantees as provided herein either during the chapter 11 cases or on and after the Effective Date, or acts in a manner that is otherwise inconsistent with the foregoing, NewCo’s undertaking to provide the Indemnity will be null and void.

During the chapter 11 cases, at the appropriate time determined by the Companies and the Supporting Holders in consultation with Mr. Lichtenstein, the Companies will seek a co-debtor stay from the



Bankruptcy Court to stay, among other things, the assertion of any claims or causes of action against Mr. Lichtenstein arising out of the Bankruptcy Guarantees. The Companies and the Supporting Holders agree that seeking a co-debtor stay with respect to Mr. Lichtenstein will facilitate the implementation of the a restructuring pursuant to the terms of this Term Sheet. Therefore, in connection with the Companies' efforts to obtain the co-debtor stay from the Bankruptcy Court and until a co-debtor stay is obtained, so long as the Companies, Mr. Lichtenstein and the Supporting Holders are diligently pursuing the implementation and confirmation of the Plan that is consistent in all respects with the terms of this Term Sheet, the Supporting Holders will agree not to commence any action against Mr. Lichtenstein under the Bankruptcy Guarantee. To the extent that the Bankruptcy Court does not grant a co-debtor stay, the Companies will provide access to an up to \$5 million litigation reserve to be used by Mr. Lichtenstein during the chapter 11 cases to defend against litigation (subject to the terms, conditions and provisions contained above with respect to the control of and cooperation in any action) commenced against him arising out of his breach of the Bankruptcy Guarantees relating to the Mortgage Loan and the Mezzanine Loans. All amounts provided to Mr. Lichtenstein from the litigation reserve will be credited against the total amount of the indemnity to be given by NewCo on the Effective Date.

**No Substantive Consolidation:**

The Plan will not provide for substantive consolidation. The Plan with respect to the Mortgage Borrowers will be consummated and become effective regardless of whether a Plan with respect to any Mezzanine Borrower cannot be or is not confirmed.

**Conditions to Closing the Transaction:**

Conditions customary for a transaction of the type contemplated by this Term Sheet including, without limitation, that there shall be no material adverse change to the assets, liabilities, businesses, or prospects of the Companies or their subsidiaries in the ability of these entities to perform their obligations hereunder (provided that the commencement of the chapter 11 cases and any events of default that may occur under the Mortgage Loan or the Mezzanine Loans shall not constitute material adverse changes for purposes of this provision), satisfaction with the resolution of all accounting and tax matters and satisfaction with the terms and conditions of any and all documents relating to the restructuring of the Companies and their subsidiaries.

**Governing law:**

New York law.

## EXHIBIT A

### TERMS OF NEW FIRST LIEN MORTGAGE LOAN

**Certificates:** Certificate Classes A1 through A3

**Initial Term:** 5 years

**Extension Options:** One 1-yr option, subject only to a 1% fee and no event of default

**Call Protection:** None

**Interest:** Payable in cash at rates described below

	Increase to Current Rate (Years 1 – 5)	Increase to Current Rate (Year 6)
Certificate A1	1.00%	3.00%
Certificate A2	2.00%	4.00%
Certificate A3	3.00%	5.00%

Payable in kind at rates described below

	Increase to Current Rate (Years 1 – 5)	Increase to Current Rate (Year 6)
Certificate A1	0.00%	0.00%
Certificate A2	0.00%	0.00%
Certificate A3	1.00%	1.00%



## EXHIBIT B

### TERMS OF NEW SECOND LIEN NOTES

**Certificates:** Certificate Class A4

**Initial Term:** 5 years

**Extension Options:** Two 1-yr options, subject only to no event of default

**Call Protection:** 105%, 104%, 103%, 102%, 101% in Years 1, 2, 3, 4 and 5, respectively

**Interest:** Payable in kind at rates described below

	Increase to Current Rate (Years 1 – 5)	Increase to Current Rate (Year 6)	Increase to Current Rate (Year 7)
Certificate A4	7.776%	8.776%	10.776%

## EXHIBIT C

### TERMS OF NEW PREFERRED STOCK

**Junior Certificates:** Certificate Classes B through G

**Initial Term:** 5 years

**Extension Options:** Three 1-yr options, subject only to no event of default

**Call Protection:** 105%, 104%, 103%, 102%, 101% in Years 1, 2, 3, 4 and 5, respectively

**Interest:** Payable in kind at rates described below

	Rate (Years 1 – 5)	Rate (Year 6)	Rate (Year 7)	Rate (Year 8)
Classes B-G	14.00%	15.00%	16.00%	17.00%



## EXHIBIT D

### DISTRIBUTION OF NEW SECURITIES\*

<u>Certificate Class</u>	<u>Distribution</u>
Classes B through F:	Pro rata portion of 89.7% of New Preferred Stock Pro rata portion of 89.7% of New Common Stock
Class G:	10.3% of New Preferred Stock 10.3% of New Common Stock
Classes H through M:	Call Options

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\* Distributions set forth herein are as of the Effective Date and do not give effect to the New Unsecured Debt election or the exercise of the Call Options.

## EXHIBIT E

### TERMS OF NEW COMMON EQUITY WARRANTS

<b>Recipients:</b>	Existing Preferred A-1, A-2 and A-3 Units	
<b>Term:</b>	5 years	
<b>Warrants:</b>	May be exercisable for New Common Stock in NewCo under the following terms:	
	Fully Diluted Equity Interest	Equity Strike Price (implied Initial Enterprise Value)
	2.5%	\$1.445 Bn (\$4.5 Bn)
	2.5%	\$1.945 Bn (\$5.0 Bn)
	5.0%	\$2.445 Bn (\$5.5 Bn)
<b>Other Terms:</b>	Shall include, but not be limited to, antidilution, cashless exercise, and other provisions similar for securities of this type. Shares received upon exercise of warrants shall have no less favorable terms than those applicable to any other shareholder in the transaction, including, to the extent applicable, reporting, tag along, preemptive, registration, and other rights. Warrants shall dilute all holders ratably.	