UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2020
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)

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)

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

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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share, of Extended Stay America, Inc. and Class B Common Stock, par value $0.01 per share, of ESH Hospitality, Inc., which are attached and trade together as Paired Shares	STAY	Nasdaq Global Select Market

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.	Yes	☒	No	☐
ESH Hospitality, Inc.	Yes	☒	No	☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Extended Stay America, Inc.	Yes	☒	No	☐
ESH Hospitality, Inc.	Yes	☒	No	☐

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

Extended Stay America, Inc.	Large Accelerated Filer	☒	Accelerated filer	☐
	Non-accelerated filer	☐	Smaller reporting company	☐
	Emerging growth company	☐		
ESH Hospitality, Inc.	Large Accelerated Filer	☒	Accelerated filer	☐
	Non-accelerated filer	☐	Smaller reporting company	☐
	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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	☒

177,560,635 shares of common stock, par value $0.01 per share, of Extended Stay America, Inc., which are attached to and traded together with 177,560,635 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 November 5, 2020.

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 Exchange Act of 1934, as amended (the "Exchange Act"), which are publicly traded and listed on The Nasdaq Global Select Market ("Nasdaq") as Paired Shares, as defined herein. As further discussed herein, unless otherwise indicated or the context requires, the terms "Company," "Extended Stay," "Extended Stay America," "we," "our" and "us" refer to the Corporation, ESH REIT and their subsidiaries considered as a single enterprise.

As required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, *Consolidation*, 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 herein.

This combined quarterly report on Form 10-Q presents the following sections or portions of sections separately 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
- Part I Item 4 – Controls and Procedures

This combined quarterly report also includes separate Exhibit 31 and 32 certifications for each of Extended Stay America, Inc. and ESH Hospitality, Inc. in order to establish that the Chief Executive Officer and the Chief Financial Officer of each registrant has 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 Exchange Act and 18 U.S.C. §1350.

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, as defined herein, gives them an ownership interest in our hotel properties through ESH REIT and in the operation, management, development and franchising of 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 both registrants; and
- Creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

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, including statements regarding, among other things, our ability to meet our debt service obligations, future capital expenditures (including future acquisitions and hotel renovation programs), our distribution policies, our development, growth and franchise opportunities, anticipated benefits or use of proceeds from dispositions, our plans, objectives, goals, beliefs, business strategies, business conditions, results of operations, financial position and business outlook, business trends and future events, as well as the COVID-19 pandemic, its effects on the foregoing, government actions taken in response to the COVID-19 pandemic and actions that we have or plan to take in response to the pandemic and such effects.

When used in this combined quarterly report on Form 10-Q, the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “will,” “look 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 be achieved and actual results may differ materially from what is expressed in or indicated by the forward-looking statements.

As disclosed in our combined annual report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) on February 26, 2020 (the “2019 Form 10-K”) and in other filings with the SEC, including this quarterly report on Form 10-Q, 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. 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 and throughout this combined quarterly report on Form 10-Q may not contain all of the risks, uncertainties and other factors that may be 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 have the results or effect on us, our business or operations in the way expected. In particular, no assurance can be given that any of our ongoing, planned or expected strategic initiatives or objectives discussed herein or in other filings with the SEC will be initiated or completed on our expected timing or at all. 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.

PART I — FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019
(In thousands, except share and per share data)
(Unaudited)

	September 30, 2020	December 31, 2019
ASSETS		
PROPERTY AND EQUIPMENT - Net of accumulated depreciation of $1,503,632 and $1,373,950	$ 3,473,816	$ 3,493,549
RESTRICTED CASH	14,894	14,858
CASH AND CASH EQUIVALENTS	381,486	346,812
INTANGIBLE ASSETS - Net of accumulated amortization of $15,072 and $13,133	32,412	34,183
GOODWILL	45,192	45,192
ACCOUNTS RECEIVABLE - Net of allowance for doubtful accounts of $5,175 and $2,749	14,550	14,020
DEFERRED TAX ASSETS	23,735	16,157
OTHER ASSETS	83,848	65,825
TOTAL ASSETS	$ 4,069,933	$ 4,030,596
LIABILITIES AND EQUITY		
LIABILITIES:		
Term loan facility payable - Net of unamortized deferred financing costs and debt discount of $9,765 and $10,993	$ 614,835	$ 618,338
Senior notes payable - Net of unamortized deferred financing costs and debt discount of $31,284 and $35,702	2,018,716	2,014,298
Revolving credit facilities	49,765	—
Mandatorily redeemable preferred stock - $0.01 par value, $1,000 redemption value, 8.0%, 350,000,000 shares authorized, 708,000 and 7,130,000 shares issued and outstanding	708	7,130
Finance lease liabilities	3,704	3,379
Accounts payable and accrued liabilities	248,064	211,181
Total liabilities	2,935,792	2,854,326
COMMITMENTS AND CONTINGENCIES (Note 12)		
EQUITY:		
Common stock - $0.01 par value, 3,500,000,000 shares authorized, 177,560,635 and 179,483,397 shares issued and outstanding	1,776	1,795
Additional paid in capital	726,466	742,397
Accumulated deficit	(51,520)	(48,283)
Accumulated other comprehensive (loss) income	(319)	383
Total Extended Stay America, Inc. shareholders' equity	676,403	696,292
Noncontrolling interests	457,738	479,978
Total equity	1,134,141	1,176,270
TOTAL LIABILITIES AND EQUITY	$ 4,069,933	$ 4,030,596

See accompanying notes to condensed consolidated financial statements.

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
REVENUES:				
Room revenues	$ 273,056	$ 320,669	$ 747,371	$ 899,329
Other hotel revenues	7,552	6,475	20,640	17,848
Franchise and management fees	1,443	1,351	3,940	4,023
	282,051	328,495	771,951	921,200
Other revenues from franchised and managed properties	3,837	4,200	11,072	12,821
Total revenues	285,888	332,695	783,023	934,021
OPERATING EXPENSES:				
Hotel operating expenses	149,156	152,913	427,886	437,111
General and administrative expenses	23,193	22,292	70,234	67,606
Depreciation and amortization	52,286	49,748	153,848	147,543
Impairment of long-lived assets	420	2,679	1,095	2,679
	225,055	227,632	653,063	654,939
Other expenses from franchised and managed properties	4,353	4,699	12,643	14,342
Total operating expenses	229,408	232,331	665,706	669,281
OTHER INCOME	1	3	4	31
INCOME FROM OPERATIONS	56,481	100,367	117,321	264,771
OTHER NON-OPERATING (INCOME) EXPENSE	(155)	101	246	(248)
INTEREST EXPENSE, NET	32,276	36,535	98,582	95,905
INCOME BEFORE INCOME TAX (BENEFIT) EXPENSE	24,360	63,731	18,493	169,114
INCOME TAX (BENEFIT) EXPENSE	(7,132)	10,501	(12,074)	27,822
NET INCOME	31,492	53,230	30,567	141,292
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(7,272)	(12,159)	(14,156)	(24,790)
NET INCOME ATTRIBUTABLE TO EXTENDED STAY AMERICA, INC. COMMON SHAREHOLDERS	$ 24,220	$ 41,071	$ 16,411	$ 116,502
NET INCOME PER EXTENDED STAY AMERICA, INC. COMMON SHARE:				
Basic	$ 0.14	$ 0.22	$ 0.09	$ 0.62
Diluted	$ 0.14	$ 0.22	$ 0.09	$ 0.62
WEIGHTED-AVERAGE EXTENDED STAY AMERICA, INC. COMMON SHARES OUTSTANDING:				
Basic	177,629	186,844	177,723	188,063
Diluted	178,198	187,015	178,071	188,317

See accompanying notes to condensed consolidated financial statements.

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
NET INCOME	$ 31,492	$ 53,230	$ 30,567	$ 141,292
OTHER COMPREHENSIVE INCOME (LOSS):				
INTEREST RATE CASH FLOW HEDGE GAIN (LOSS), NET OF TAX OF $58, $(118), $(241) and $(709)	331	(687)	(1,371)	(4,109)
COMPREHENSIVE INCOME	31,823	52,543	29,196	137,183
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(7,433)	(11,817)	(13,487)	(22,725)
COMPREHENSIVE INCOME ATTRIBUTABLE TO EXTENDED STAY AMERICA, INC. COMMON SHAREHOLDERS	$ 24,390	$ 40,726	$ 15,709	$ 114,458

See accompanying notes to condensed consolidated financial statements.

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(In thousands, except per share data)
(Unaudited)

	Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Extended Stay America, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount						
BALANCE - July 1, 2019	188,412	$ 1,884	$ 751,467	$ 77,551	$ 789	$ 831,691	$ 481,332	$ 1,313,023
Net income	—	—	—	41,071	—	41,071	12,159	53,230
Interest rate cash flow hedge loss, net of tax	—	—	—	—	(345)	(345)	(342)	(687)
Repurchase of Corporation common stock and ESH REIT Class B common stock (Paired Shares)	(3,993)	(40)	—	(36,544)	—	(36,584)	(20,887)	(57,471)
Corporation common distributions - $0.08 per common share	—	—	—	(15,120)	—	(15,120)	—	(15,120)
ESH REIT common distributions - $0.15 per Class B common share	—	—	—	—	—	—	(28,347)	(28,347)
ESH REIT preferred distributions	—	—	—	—	—	—	(4)	(4)
Adjustment to reflect changes in book value of noncontrolling interests	—	—	(6,563)	—	—	(6,563)	6,563	—
Equity-based compensation	82	1	1,242	—	—	1,243	604	1,847
BALANCE - September 30, 2019	184,501	$ 1,845	$ 746,146	$ 66,958	$ 444	$ 815,393	$ 451,078	$ 1,266,471

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Extended Stay America, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount						
BALANCE - July 1, 2020	177,482	$ 1,775	$ 724,882	$ (75,749)	$ (489)	$ 650,419	$ 451,949	$ 1,102,368
Net income	—	—	—	24,220	—	24,220	7,272	31,492
Interest rate cash flow hedge gain, net of tax	—	—	—	—	170	170	161	331
Corporation common distributions - $0 per common share	—	—	—	9	—	9	—	9
ESH REIT common distributions - $0.01 per Class B common share	—	—	—	—	—	—	(1,773)	(1,773)
ESH REIT preferred distributions	—	—	—	—	—	—	(4)	(4)
Adjustment to reflect changes in book value of noncontrolling interests	—	—	505	—	—	505	(505)	—
Equity-based compensation	79	1	1,079	—	—	1,080	638	1,718
BALANCE - September 30, 2020	177,561	$ 1,776	$ 726,466	$ (51,520)	$ (319)	$ 676,403	$ 457,738	$ 1,134,141

	Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Extended Stay America, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount						
BALANCE - January 1, 2019	188,219	$ 1,882	$ 749,219	$ 32,432	$ 2,488	$ 786,021	$ 524,618	$ 1,310,639
Net Income	—	—	—	116,502	—	116,502	24,790	141,292
Interest rate cash flow hedge loss, net of tax	—	—	—	—	(2,044)	(2,044)	(2,065)	(4,109)
Repurchase of Corporation common stock and ESH REIT Class B common stock (Paired Shares)	(3,993)	(40)	—	(36,544)	—	(36,584)	(20,887)	(57,471)
Corporation common distributions - $0.24 per common share	—	—	—	(45,432)	—	(45,432)	—	(45,432)
ESH REIT common distributions - $0.44 per Class B common share	—	—	—	—	—	—	(83,287)	(83,287)
ESH REIT preferred distributions	—	—	—	—	—	—	(12)	(12)
Adjustment to reflect changes in book value of noncontrolling interests	—	—	(6,163)	—	—	(6,163)	6,163	—
Equity-based compensation	275	3	3,090	—	—	3,093	1,758	4,851
BALANCE - September 30, 2019	184,501	$ 1,845	$ 746,146	$ 66,958	$ 444	$ 815,393	$ 451,078	$ 1,266,471

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Extended Stay America, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount						
BALANCE - January 1, 2020	179,483	$ 1,795	$ 742,397	$ (48,283)	$ 383	$ 696,292	$ 479,978	$ 1,176,270
Net income	—	—	—	16,411	—	16,411	14,156	30,567
Interest rate cash flow hedge loss, net of tax	—	—	—	—	(702)	(702)	(669)	(1,371)
Repurchase of Corporation common stock and ESH REIT Class B common stock (Paired Shares)	(2,237)	(22)	—	(19,665)	—	(19,687)	(11,406)	(31,093)
Corporation common distributions - $0.09 per common share	—	—	(15,981)	17	—	(15,964)	—	(15,964)
ESH REIT common distributions - $0.16 per Class B common share	—	—	—	—	—	—	(28,388)	(28,388)
ESH REIT preferred distributions	—	—	—	—	—	—	(12)	(12)
Adjustment to reflect changes in book value of noncontrolling interests	—	—	(2,463)	—	—	(2,463)	2,463	—
Equity-based compensation	315	3	2,513	—	—	2,516	1,616	4,132
BALANCE - September 30, 2020	177,561	$ 1,776	$ 726,466	$ (51,520)	$ (319)	$ 676,403	$ 457,738	$ 1,134,141

See accompanying notes to condensed consolidated financial statements.

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
OPERATING ACTIVITIES:		
Net income	$ 30,567	$ 141,292
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	153,848	147,543
Foreign currency transaction loss (gain)	246	(248)
Amortization of deferred financing costs and debt discount	6,179	11,635
Debt modification and extinguishment costs	—	82
Loss on disposal of property and equipment	6,309	5,037
Impairment of long-lived assets	1,095	2,679
Equity-based compensation	4,646	6,131
Deferred income tax benefit	(7,338)	(4,327)
Changes in assets and liabilities:		
Accounts receivable, net	(530)	(2,160)
Other assets	(19,054)	(5,310)
Accounts payable and accrued liabilities	41,263	36,432
Net cash provided by operating activities	217,231	338,786
INVESTING ACTIVITIES:		
Purchases of property and equipment	(86,112)	(129,816)
Development in process payments	(58,301)	(42,116)
Payment for intangible assets	(501)	(6,081)
Proceeds from insurance and related recoveries	987	914
Net cash used in investing activities	(143,927)	(177,099)
FINANCING ACTIVITIES:		
Principal payments on term loan facility	(4,731)	(505,683)
Proceeds from revolving credit facilities	399,765	—
Payments on revolving credit facility	(350,000)	—
Proceeds from issuance of senior notes	—	750,000
Payments of deferred financing costs	(127)	(18,237)
Principal payments on finance leases	(102)	(86)
Debt modification and extinguishment costs	—	(82)
Tax withholdings related to restricted stock unit settlements	(860)	(1,598)
Repurchase of Corporation common stock and ESH REIT Class B common stock (Paired Shares)	(31,093)	(57,471)
Repurchase of Corporation mandatorily redeemable preferred stock	(6,422)	—
Corporation common distributions	(16,178)	(45,362)
ESH REIT common distributions	(28,773)	(83,200)
ESH REIT preferred distributions	(8)	(8)
Net cash (used in) provided by financing activities	(38,529)	38,273
CHANGES IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH DUE TO CHANGES IN FOREIGN CURRENCY EXCHANGE RATES	(65)	43
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	34,710	200,003
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - Beginning of period	361,670	303,336
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - End of period	$ 396,380	$ 503,339

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019 (CONTINUED)
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash payments for interest, excluding modification, prepayment and other penalties, net of capitalized interest of $2,283 and $1,373	$ 69,031	$ 68,953
Cash payments for income taxes, net of refunds of $181 and $0	$ 15,239	$ 30,853
Operating cash payments for finance leases	$ 187	$ 183
Operating cash payments for operating leases	$ 2,161	$ 2,074
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital expenditures included in accounts payable and accrued liabilities	$ 20,328	$ 28,124
Additions to finance lease right-of-use assets and liabilities	$ 427	$ 109
Deferred financing costs included in accounts payable and accrued liabilities	$ —	$ 2,353
Debt modification and extinguishment costs included in accounts payable and accrued liabilities	$ —	$ 1,006
Corporation common distributions included in accounts payable and accrued liabilities	$ 201	$ 428
ESH REIT common distributions included in accounts payable and accrued liabilities	$ 355	$ 879

See accompanying notes to condensed consolidated financial statements.

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. The Corporation owns, and is expected to continue to own, all of the issued and outstanding Class A common stock of ESH REIT, which, as of September 30, 2020, represents 59% 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 its consolidated subsidiaries, including ESH REIT.

A "Paired Share" consists 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. Each outstanding share of Corporation common stock is attached to and trades with one share of ESH REIT Class B common stock.

The Company is an integrated owner/operator of Extended Stay America-branded hotels and is also engaged in franchising and managing extended stay hotels for third parties in the U.S. As of September 30, 2020 and December 31, 2019, the Company owned and operated 562 and 557 hotel properties, respectively, in 40 U.S. states, consisting of approximately 62,500 and 61,900 rooms, respectively, and franchised or managed 76 and 73 hotel properties for third parties, respectively, consisting of approximately 7,800 and 7,500 rooms, respectively. As of September 30, 2020, all 638 system-wide hotels were operated under the Extended Stay America brand.

Owned hotel properties are owned by subsidiaries of ESH REIT and 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, which also manages 25 hotels on behalf of third parties. The Extended Stay America brand is owned by ESH Hospitality Strategies LLC ("ESH Strategies"), also a subsidiary of the Corporation. ESH Strategies licenses the brand and intellectual property to the Operating Lessees and third parties.

As of September 30, 2020 and December 31, 2019, the Corporation had 177.6 million shares and 179.5 million shares of common stock outstanding, respectively. As of September 30, 2020 and December 31, 2019, ESH REIT's common equity consisted of the following: (i) 250.5 million shares of Class A common stock outstanding (59% and 58%, respectively, of its common equity), all of which were owned by the Corporation, and (ii) 177.6 million shares and 179.5 million shares of Class B common stock outstanding, respectively (41% and 42%, respectively, of its common equity).

Paired Share Repurchase Program—In December 2015, the Boards of Directors of the Corporation and ESH REIT authorized a combined Paired Share repurchase program. As a result of several increases in authorized amounts and program extensions, the combined Paired Share repurchase program currently authorizes the Corporation and ESH REIT to purchase up to $550 million in Paired Shares through December 31, 2020. Repurchases may be made at management's discretion from time to time in the open market, in privately negotiated transactions or by other means (including through Rule 10b5-1 trading plans). As of September 30, 2020, the Corporation and ESH REIT had repurchased and retired 28.6 million Paired Shares for $283.0 million and $166.4 million, including transaction fees, respectively, and $101.1 million remained available under the combined Paired Share repurchase program.

Basis of Consolidation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") and include the financial position, results of operations, comprehensive income, changes in equity and cash flows of the Corporation and its consolidated subsidiaries, including ESH REIT. Third-party equity interests in consolidated subsidiaries are presented as noncontrolling interests. Despite the fact that each share of Corporation common stock is paired on a one-for-one basis with each share of ESH REIT Class B common stock, the Corporation does not own ESH REIT Class B common stock; therefore, ESH REIT Class B common stock represents a third-party equity interest. As such, the rights associated with ESH REIT Class B common stock, along with other third-party equity interests in ESH REIT, are presented as noncontrolling interests in the accompanying condensed consolidated financial statements. Changes in ownership interests in a consolidated subsidiary that do not result in a loss of control are accounted for as equity transactions. 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 condensed consolidated financial statements. The Company believes the disclosures made are adequate to prevent the information presented from being misleading. However, the condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2019 included in the combined annual report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on February 26, 2020.

The accompanying 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, 2020, the results of the Company's operations, comprehensive income and changes in equity for the three and nine months ended September 30, 2020 and 2019 and cash flows for the nine months ended September 30, 2020 and 2019. Interim results are not necessarily indicative of full year performance because of the impact of seasonal, short-term or other market variations, including the impact of the COVID-19 pandemic, as well as the impact of acquisitions, dispositions, hotel renovations and financing or other capital transactions.

Use of Estimates—The preparation of the accompanying condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and amounts of revenues and expenses during the reporting period. Management used significant estimates to determine the estimated useful lives of tangible assets, as well as in the assessment of tangible and intangible assets for impairment, estimated liabilities for insurance reserves and income taxes. 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 2 to 49 years.

Management assesses long-lived assets for potential impairment quarterly, as well as when events or changes in circumstances indicate the carrying amount of an asset or group of assets may not be recoverable. The identification of events or changes in circumstances that indicate the carrying value of assets may not be recoverable requires judgment. The Company reviews for impairment indicators at the lowest level of identifiable cash flows based on quantitative, qualitative and certain industry-related factors. Quantitative factors include, but are not limited to, hotel property EBITDA, EBITDA margins and EBITDA multiples, and serve to screen assets with historical, current or projected operating cash flow losses or deterioration. Qualitative factors include a change in physical condition, economic environment, regulatory environment or primary use, including the evaluation of the asset for disposition.

Recoverability of property and equipment is measured by a comparison of the carrying amount of a hotel property or group of hotel properties to the estimated future undiscounted cash flows expected to be generated by the hotel property or group of hotel properties. Impairment is recognized when estimated future undiscounted cash flows, including expected proceeds from disposition, are less than the carrying value of the hotel property or group of hotel properties. To the extent that a hotel property or group of hotel properties is impaired, the excess carrying amount over estimated fair value is recognized as an impairment charge. Fair value is determined based upon the discounted cash flows of the hotel property or group of hotel properties, bids, quoted market prices or independent appraisals, as considered necessary.

The estimation and evaluation of future cash flows, in particular the holding period for real estate assets and asset composition and/or concentration within real estate portfolios, relies on judgments and assumptions regarding holding period, current and future operating performance and current and future market conditions. It is possible that such judgments and/or estimates will change; in particular, the effects of the COVID-19 pandemic could cause economic and market conditions to continue to deteriorate, and if this occurs, or if the Company's expected holding period for real estate assets changes, the Company may recognize impairment charges or losses on sale in future periods reflecting either changes in estimate, circumstance or the estimated market value of assets. During the three and nine months ended September 30, 2020, the Company recognized impairment charges of $0.4 million and $1.1 million, respectively, related to one hotel located in Illinois and an undeveloped land parcel. The hotel-related impairment charge was incurred during the three months ended September

30, 2020, as a result of decline in the hotel's estimated future operating cash flows. Based on market conditions and the Company's plans with respect to its hotel properties as of September 30, 2020, the Company believes that the carrying amounts of its hotel properties are recoverable and no additional impairment charges were recorded during the three and nine months ended September 30, 2020; however, actual results are subject to a high degree of uncertainty due to the volatility of macroeconomic trends.

Intangible Assets and Goodwill—Intangible assets include trademarks, corporate customer relationships and licenses related to certain internal-use software. Corporate customer relationships and software licenses are amortized using the straight-line method over their estimated useful lives; the estimated useful life of customer relationships is 20 years, and the estimated useful life of software licenses is the remaining non-cancellable term of each respective contract. Trademarks are not amortized. Goodwill represents the purchase price in excess of the fair value of net assets acquired in conjunction with the acquisition of the Company's predecessor in 2010.

Definite-lived intangible assets are reviewed for impairment quarterly and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite-lived intangible assets, including goodwill, are reviewed for impairment quarterly, and the Company tests for impairment more frequently if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company has two reportable operating segments, owned hotels and franchise and management. There is no goodwill associated with the Company's franchise and management segment. Management analyzes goodwill associated with all owned hotels when analyzing for potential impairment. The Company first assesses qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

As of September 30, 2020, the Company believes that the carrying amount of its intangible assets, including goodwill, are recoverable and there are no changes in circumstances that would more likely than not reduce the fair value of its reporting units below their carrying amount; therefore, no impairment charges were recorded during the three and nine months ended September 30, 2020. However, if the effects of the COVID-19 pandemic cause economic and market conditions to continue to deteriorate, these events could result in impairment charges in the future. Actual results are subject to a high degree of uncertainty due to the volatility of macroeconomic trends.

Revenue from Owned and Operated Hotels—Revenue generated from owned and operated hotels consists of room and other hotel revenues recognized when services are provided. When a reservation is made, the Company deems that the parties have approved a contract in accordance with customary business practices and are committed to perform their respective obligations. At such time, each party’s rights regarding the services to be transferred are identified, payment terms are specified, the contract has commercial substance and, in most instances, it is probable the Company will collect substantially all consideration to which it will be entitled in exchange for services.

Each room night consumed by a guest with a cancellable reservation represents a contract whereby the Company has a performance obligation to provide the room night at an agreed upon price. For cancellable reservations, the Company recognizes revenue as each performance obligation (i.e., each room night) is met. Such contract is renewed if the guest continues their stay. For room nights consumed by a guest with a non-cancellable reservation, the entire reservation period represents the contract term whereby the Company has a performance obligation to provide the room night or nights at an agreed upon price. For non-cancellable reservations, the Company recognizes revenue over the term of the performance period (i.e., the reservation period) as room nights are consumed. For these reservations, the room rate is typically fixed over the reservation period. The Company uses an output method based on performance completed to date (i.e., room nights consumed) to determine the amount of revenue it recognizes on a daily basis if the length of a non-cancellable reservation exceeds one night since consumption of room nights indicates when services are transferred to the guest. In certain instances, variable consideration may exist with respect to the transaction price, such as discounts, coupons and price concessions made upon guest checkout.

In evaluating its performance obligation, the Company bundles the obligation to provide the guest the room itself with other obligations (such as free WiFi, grab and go breakfast, access to on-site laundry facilities and parking), as the other obligations are not distinct and separable because the guest cannot benefit from the additional amenities without the consumed room night. The Company’s obligation to provide the additional items or services is not separately identifiable from the fundamental contractual obligation (i.e., providing the room and its contents). The Company has no performance obligations once a guest’s stay is complete.

Certain revenues are generated through third-party intermediaries or distribution channels (i.e., online travel agents). Regardless of the basis on which the Company is compensated (i.e., gross or net), the Company is responsible for fulfilling the promise to provide the hotel room and related services to the guest and retains inventory risk. Since the Company controls the inventory and services provided and because third-party intermediaries are typically not contractually required to guarantee room night consumption, the Company is the principal in these transactions. As such, the Company is required to record revenue at an amount equal to the price charged to the guest (i.e., on a gross basis). Third-party intermediaries that pay the Company directly (i.e., on a net basis) typically charge the guest additional fees, blend the room offering with other offerings at amounts which are not allocable and may adjust the price without the Company's approval. As such, the Company is unable to calculate the room rate charged to the guest. Since any estimate the Company would make has significant uncertainty that ultimately would not be resolved, despite its role as principal, in these instances the Company records revenue equal to the amount paid by the third-party intermediaries (i.e., the net amount).

Revenue from Franchise and Management Fees—Revenue generated from franchise and management fees consists of the following:

- Franchise fees, which consist of an initial fee and an ongoing royalty fee based on a percentage of a hotel's monthly revenue in exchange for the access to and use of the Company's brand name and other intellectual property. Initial fees are deferred and recognized over the expected contract or customer life. Royalty fees are recognized over time as franchisees derive value from the license to use the intellectual property.
- Management fees, which consist of an ongoing base fee calculated as a percentage of a hotel's monthly revenue in exchange for on-site hotel management services. Management fees are recognized over time as third-party hotel owners derive value from on-site personnel and related services.
- Other revenues from franchised and managed properties, which include the reimbursement of costs incurred on behalf of third-party hotel owners on a direct and an indirect basis, as follows:
    - Direct costs incurred with respect to management and franchise agreements include on-site hotel personnel and incremental reservation and distribution costs for which the Company is reimbursed on a dollar-for-dollar basis. Since the Company employs the hotel personnel and has discretion over reservation and distribution costs, it is the principal with respect to these services and revenue is recognized on a gross basis.
    - Indirect costs incurred with respect to franchise agreements include costs associated with certain shared system-wide platforms (i.e., system services), such as marketing, technology infrastructure, central reservations, national sales and revenue management systems. The Company is reimbursed for indirect costs through a system service fee, or program fee, based on a percentage of a hotel's monthly revenue. System service fees are recognized over time as franchisees derive value from the license to use these processes and systems. The Company has discretion over how it spends system service fees and is the principal with respect to these services. Revenue is recognized on a gross basis; expense is recognized as incurred. Over time, the Company manages system services to break-even, but the timing of system service fee revenues will typically not align with expenses incurred to operate the programs.

The promise to provide access to the Company's intellectual property is combined with the promise to provide system services to form a single performance obligation since the promises generally accompany one another. Hotel management services form a single performance obligation. As noted above, each identified performance obligation is considered to be a series of services transferred over time. Revenue is recognized on an output method based on performance completed to date. The Company recognizes revenue in the amount to which it has a right to bill third parties under their respective franchise or management agreements, as it has a right to consideration in an amount that corresponds directly with the third parties' hotel revenues. Franchise, management and system service fees are characterized as variable consideration and vary from period to period. In the event that fees include variables that extend beyond the current period, the Company uses the most likely amount method to determine the amount of revenue to record based on a reasonable revenue forecast for the applicable hotel. In most instances, the Company does not have constraining estimates, as third-party hotel revenues are typically available and obtained monthly.

Recently Issued Accounting Standards

Reference Rate Reform—In March 2020, the FASB issued an accounting standards update that provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships that reference LIBOR, subject to meeting certain criteria. The Company adopted this update on March 12, 2020, and the update is effective through December 31, 2022, during which time the Company may elect to apply the optional expedients and exceptions offered under the standard. The Company's variable rate debt and interest rate swap are tied to rates that reference LIBOR (see Notes 7 and 8). As of September 30, 2020, the Company had not applied any of these optional expedients or exceptions. The adoption of this update did not, and is not expected to, have a material effect on the Company's condensed consolidated financial statements.

Income Taxes—In December 2019, the FASB issued an accounting standards update which simplifies the accounting for income taxes. The update amends several topics including interim period accounting for enacted changes in tax law and year-to-date loss limitation in interim-period tax accounting. This update will be effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2020, and may be early adopted. The Company does not expect the adoption of this update to have a material effect on its condensed consolidated financial statements.

Fair Value Measurement—In August 2018, the FASB issued an accounting standards update which modifies the disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurement*. The Company adopted this update on January 1, 2020. The adoption of this update did not have a material effect on the Company's condensed consolidated financial statements.

Intangibles-Goodwill and Other—Internal-Use Software—In August 2018, the FASB issued an accounting standards update which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. The Company adopted this update on January 1, 2020, using a prospective transition method. The adoption of this update did not have a material effect on the Company's condensed consolidated financial statements.

Goodwill—In January 2017, the FASB issued an accounting standards update in which the guidance on testing for goodwill was updated to eliminate Step 2 in the determination on whether goodwill should be considered impaired. Annual and/or interim assessments are still required. The Company adopted this update on January 1, 2020, using a prospective transition method. The adoption of this update did not have a material effect on the Company's condensed consolidated financial statements.

Financial Instruments—Credit Losses—In June 2016, the FASB issued an accounting standards update which requires the measurement of an impairment allowance for certain financial assets based on a company's current estimate of all contractual cash flows it does not expect to collect. The new standard primarily impacts the manner in which the Company estimates its allowance for uncollectible trade receivables. The standard requires the Company to measure its allowance for doubtful accounts based on current conditions, historical experience and reasonable and supportable forecasts for each pool of receivables with similar risk characteristics. The Company adopted this update on January 1, 2020, using a modified retrospective method. The adoption of this update did not have a material effect on the Company's condensed consolidated financial statements and had no effect on or impact to retained earnings.

3. 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 unrestricted common stock outstanding plus potentially dilutive securities. Dilutive securities include certain equity-based awards (see Note 13) and are included in the calculation provided that the inclusion of such securities is not anti-dilutive.

The calculations of basic and diluted net income per share, including a reconciliation of the numerators and denominators, are as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income available to Extended Stay America, Inc. common shareholders - basic	$ 24,220	$ 41,071	$ 16,411	$ 116,502
Income attributable to noncontrolling interests assuming conversion	(14)	(6)	(16)	(19)
Net income available to Extended Stay America, Inc. common shareholders - diluted	$ 24,206	$ 41,065	$ 16,395	$ 116,483
Denominator:				
Weighted-average number of Extended Stay America, Inc. common shares outstanding - basic	177,629	186,844	177,723	188,063
Dilutive securities	569	171	348	254
Weighted-average number of Extended Stay America, Inc. common shares outstanding - diluted	178,198	187,015	178,071	188,317
Net income per Extended Stay America, Inc. common share - basic	$ 0.14	$ 0.22	$ 0.09	$ 0.62
Net income per Extended Stay America, Inc. common share - diluted	$ 0.14	$ 0.22	$ 0.09	$ 0.62

4. HOTEL ACQUISITIONS

No hotels were acquired during the three or nine months ended September 30, 2020. On November 12, 2019, the Company acquired a 121-room operating hotel from Crestwood Suites of Lakeland, LLC for $10.0 million. Other than ordinary components of prorated net working capital, no liabilities were assumed in the purchase. The majority of the purchase price was allocated to building and improvements, with estimated useful lives ranging from 5 to 44 years.

5. PROPERTY AND EQUIPMENT

Net investment in property and equipment as of September 30, 2020 and December 31, 2019, consists of the following (in thousands):

	September 30, 2020	December 31, 2019
Hotel properties:		
Land and site improvements [(1)]	$ 1,246,129	$ 1,228,231
Building and improvements	2,858,291	2,792,579
Furniture, fixtures and equipment [(2)]	778,582	745,145
Total hotel properties	4,883,002	4,765,955
Development in process [(3)]	63,082	70,864
Corporate furniture, fixtures, equipment, software and other	31,364	30,680
Total cost	4,977,448	4,867,499
Less accumulated depreciation:		
Hotel properties	(1,480,698)	(1,353,772)
Corporate furniture, fixtures, equipment, software and other	(22,934)	(20,178)
Total accumulated depreciation	(1,503,632)	(1,373,950)
Property and equipment — net	$ 3,473,816	$ 3,493,549

(1) Includes finance lease asset of $4.0 million and $3.2 million as of September 30, 2020 and December 31, 2019, respectively.
(2) Includes finance lease asset of $0.4 million and $0 as of September 30, 2020 and December 31, 2019, respectively.
(3) Includes finance lease asset of $0 and $0.8 million as of September 30, 2020 and December 31, 2019, respectively.

As of September 30, 2020 and December 31, 2019, development in process consisted of 10 and 15 land parcels, respectively, that were in various phases of construction and/or development. As of September 30, 2020, the Company expects to delay commencement of construction at three of these locations as a result of current market uncertainty.

During the three and nine months ended September 30, 2020, and the year ended December 31, 2019, the following owned, newly constructed hotels were opened under the Extended Stay America brand:

Opening Date	Location	Number of Hotels	Number of Rooms
December 2019	Florida	1	124
December 2019	Arizona	1	136
March 2020	Florida	1	120
April 2020	South Carolina	1	120
June 2020	Georgia	1	124
June 2020	Texas	1	124
August 2020	Florida	1	124

During the three and nine months ended September 30, 2020, these new hotels contributed total room and other hotel revenues, total operating expenses and (loss) income before income tax expense as follows (in thousands):

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Total room and other hotel revenues	$ 2,763	$ 5,998
Total operating expenses	2,918	5,903
(Loss) income before income tax expense	(155)	95

During the three and nine months ended September 30, 2020, the Company recognized impairment charges of $0.4 million and $1.1 million, respectively, related to one hotel located in Illinois and an undeveloped land parcel. The hotel-related impairment charge was incurred during the three months ended September 30, 2020, as a result of a decline in the hotel's estimated future operating cash flows. During the three and nine months ended September 30, 2019, the Company recognized an impairment charge of $2.7 million for one hotel located in New York. The impairment charge was incurred as a result of a decline in the hotel's estimated future operating cash flows.

The Company used Level 3 unobservable inputs and, in certain instances Level 2 observable inputs, to determine the impairment on its property and equipment. Quantitative information with respect to observable inputs consists of non-binding bids or, in certain instances, binding agreements to sell an asset or portfolio of assets to one or more third parties. 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 that range from 6% to 10% and terminal capitalization rates that range from 7% to 11%. These assumptions are based on the Company's historical data and experience, the Company's budgets, industry projections and overall micro and macro-economic projections.

6. INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets and goodwill as of September 30, 2020 and December 31, 2019, consist of the following (in thousands):

	September 30, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Definite-lived intangible assets—customer relationships	$ 26,800	$ (13,375)	$ 13,425
Definite-lived intangible assets—software licenses	10,521	(1,697)	8,824
Indefinite-lived intangible assets—trademarks	10,163	—	10,163
Total intangible assets	47,484	(15,072)	32,412
Goodwill	45,192	—	45,192
Total intangible assets and goodwill	$ 92,676	$ (15,072)	$ 77,604

	December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Definite-lived intangible assets—customer relationships	$ 26,800	$ (12,370)	$ 14,430
Definite-lived intangible assets—software licenses	10,353	(763)	9,590
Indefinite-lived intangible assets—trademarks	10,163	—	10,163
Total intangible assets	47,316	(13,133)	34,183
Goodwill	45,192	—	45,192
Total intangible assets and goodwill	$ 92,508	$ (13,133)	$ 79,375

The remaining weighted-average amortization period for amortizing intangible assets is approximately nine years as of September 30, 2020. Estimated future amortization expense for amortizing intangible assets is as follows (in thousands):

Years Ending December 31,	
Remainder of 2020	$ 646
2021	2,586
2022	2,586
2023	2,586
2024	2,586
2025	2,586
Thereafter	8,673
Total	$ 22,249

7. DEBT

Summary - The Company's outstanding debt, net of unamortized debt discounts and unamortized deferred financing costs, as of September 30, 2020 and December 31, 2019, consists of the following (dollars in thousands):

		Carrying Amount		Unamortized Deferred Financing Costs			
Loan	Stated Amount	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019	Stated Interest Rate	Maturity Date
Term loan facility							
ESH REIT Term Facility	$ 630,909	$ 622,855 (1)	$ 627,368 (1)	$ 8,020	$ 9,030	LIBOR (2) + 2.00%	9/18/2026 (3)
Senior notes							
2025 Notes	1,300,000	1,293,973 (4)	1,292,986 (4)	12,938	15,055	5.25%	5/1/2025
2027 Notes	750,000	750,000	750,000	12,319	13,633	4.63%	10/1/2027
Revolving credit facilities							
ESH REIT Revolving Credit Facility	350,000	—	—	2,200 (5)	2,606 (5)	LIBOR (2) + 2.00%	9/18/2024
Corporation Revolving Credit Facility	50,000	49,765	—	555 (5)	556 (5)	LIBOR (2) + 2.25%	9/18/2024
Total		$ 2,716,593	$ 2,670,354	$ 36,032	$ 40,880		

(1) The ESH REIT Term Facility (defined below) is presented net of an unamortized debt discount of $1.7 million and $2.0 million as of September 30, 2020 and December 31, 2019, respectively.
(2) As of September 30, 2020 and December 31, 2019, one-month LIBOR was 0.15% and 1.76%, respectively. As of September 30, 2020 and December 31, 2019, $100.0 million and $200.0 million, respectively, of the ESH REIT Term Facility was subject to an interest rate swap at a fixed rate of 1.175%.
(3) Amortizes in equal quarterly installments of $1.6 million. In addition to scheduled amortization, subject to certain exceptions, annual mandatory prepayments of up to 50% of Excess Cash Flow, as defined, may be required commencing with the year ending December 31, 2020. Annual mandatory prepayments for a given fiscal year are due during the first quarter of the following fiscal year.
(4) The 2025 Notes (defined below) are presented net of an unamortized discount of $6.0 million and $7.0 million as of September 30, 2020 and December 31, 2019, respectively.
(5) Unamortized deferred financing costs related to revolving credit facilities are included in other assets in the accompanying consolidated balance sheets.

ESH REIT Credit Facilities

ESH REIT's credit agreement, as may be amended and supplemented from time to time, provides for senior secured credit facilities (collectively, the "ESH REIT Credit Facilities") which consist of a $630.9 million senior secured term loan facility (the "ESH REIT Term Facility") and a $350.0 million senior secured revolving credit facility (the "ESH REIT Revolving Credit Facility"). Subject to the satisfaction of certain criteria, borrowings under the ESH REIT Credit Facilities may be increased by an amount of up to $600.0 million, plus additional amounts, so long as, after giving effect to the incurrence of such incremental facility and the application of proceeds thereof, ESH REIT's pro-forma senior loan-to-value ratio is less than or equal to 45%.

ESH REIT Term Facility—The ESH REIT Term Facility bears interest at a rate equal to (i) LIBOR plus 1.75% for any period during which ESH REIT maintains a public corporate family rating better than or equal to BB (with a stable or better outlook) from S&P and Ba3 (with a stable or better outlook) from Moody's (a "Level 1 Period") or LIBOR plus 2.00% for any period other than a Level 1 Period; or (ii) a base rate (determined by reference to the highest of (A) the prime lending rate, (B) the overnight federal funds rate plus 0.50% or (C) the one-month adjusted LIBOR rate plus 1.00%), plus 0.75% during a Level 1 Period or 1.00% for any period other than a Level 1 Period. ESH REIT has the option to prepay outstanding loans under the ESH REIT Term Facility without penalty.

ESH REIT Revolving Credit Facility—Borrowings under the ESH REIT Revolving Credit Facility bear interest at a rate equal to (i) LIBOR plus a spread that ranges from 1.50% to 2.00% based on ESH REIT's Consolidated Total Net Leverage Ratio, as defined, or (ii) a base rate (determined by reference to the highest of (A) the prime lending rate, (B) the overnight federal funds rate plus 0.50%, or (C) the one-month adjusted LIBOR rate plus 1.00%) plus a spread that ranges from 0.50% to 1.00% based on ESH REIT's Consolidated Total Net Leverage Ratio, as defined. ESH REIT incurs a fee of 0.30% or 0.175% on the unutilized revolver balance based on the amount outstanding under the facility. ESH REIT is also required to pay customary letter of credit fees and agency fees. The ESH REIT Revolving Credit Facility provides for the issuance of up to $50.0 million of letters of credit. As of September 30, 2020, ESH REIT had no letters of credit outstanding and available borrowing capacity of $350.0 million under the facility.

In March 2020, ESH REIT borrowed the full available capacity of $350.0 million under the ESH REIT Revolving Credit Facility as a precautionary measure in order to increase its cash position and preserve financial flexibility in light of uncertainty in business markets resulting from the COVID-19 pandemic. In August 2020, ESH REIT repaid the full outstanding balance under the ESH REIT Revolving Credit Facility. As of September 30, 2020, the outstanding balance under the facility was $0.

ESH REIT 2025 Notes

In May 2015 and March 2016, ESH REIT issued $500.0 million and $800.0 million, respectively, of its 5.25% senior notes due in May 2025 (the "2025 Notes") under an indenture with Deutsche Bank Trust Company Americas, as trustee, in private placements pursuant to Rule 144A of the Securities Act of 1933, as amended. 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, plus accrued and unpaid interest. 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.

ESH REIT 2027 Notes

In September 2019, ESH REIT issued $750.0 million of its 4.625% senior notes due in 2027 (the "2027 Notes") under an indenture with Deutsche Bank Trust Company Americas, as trustee, at a price equal to 100% of par value in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. ESH REIT may redeem the 2027 Notes at any time on or after October 1, 2022, in whole or in part, at a redemption price equal to 102.313% of the principal amount, declining annually to 100% of the principal amount from October 1, 2024 and thereafter, plus accrued and unpaid interest. Prior to October 1, 2022, ESH REIT may redeem the 2027 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a "make-whole" premium, as defined, plus accrued and unpaid interest. Prior to October 1, 2022, subject to certain conditions, ESH REIT may redeem up to 35% of the aggregate principal amount of the 2027 Notes at a redemption price equal to 101% of the aggregate principal amount, 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 2027 Notes have the right to require ESH REIT to redeem the 2027 Notes at 101% of the principal amount, plus accrued and unpaid interest.

Corporation Revolving Credit Facility

The Corporation's revolving credit facility, as may be amended and supplemented from time to time (the "Corporation Revolving Credit Facility"), provides for the issuance of up to $50.0 million of letters of credit as well as borrowing on same day notice, referred to as swingline loans, in an amount of up to $20.0 million. Borrowings under the Corporation Revolving Credit Facility bear interest at a rate equal to (i) LIBOR plus 2.25% or (ii) a base rate (determined by reference to the highest of (A) the prime lending rate, (B) the overnight federal funds rate plus 0.50% or (C) the one-month adjusted LIBOR plus 1.00%) plus 1.25%. In addition to paying interest on outstanding principal, the Corporation incurs a fee of 0.30% or 0.175% on the unutilized revolver balance based on the amount outstanding under the facility.

In March 2020, the Company borrowed $49.8 million under the Corporation Revolving Credit Facility as a precautionary measure in order to increase its cash position and preserve financial flexibility in light of uncertainty in business markets resulting from the COVID-19 pandemic. The proceeds may in the future be used for working capital, general corporate or other purposes permitted under the agreement. As of September 30, 2020, the Corporation had one letter of credit outstanding of $0.2 million and no available borrowing capacity under the facility.

Obligations under the Corporation Revolving Credit Facility are guaranteed by certain existing and future material domestic subsidiaries of the Corporation, excluding ESH REIT and its subsidiaries and subject to customary exceptions. The facility is secured, subject to certain exceptions, by a first priority security interest in substantially all of the assets of the Corporation and the guarantors. If obligations are outstanding under the facility 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 for any consecutive four quarter period, be less than or equal to 8.75 to 1.00 (the "Leverage Covenant," subject to the Four Quarter Suspension Period, as defined below). The facility is also subject to a springing financial covenant whereby the senior loan-to-value ratio may not exceed 45% when the aggregate principal amount of borrowings and letters of credit under the Corporation Revolving Credit Facility, excluding up to $30.0 million of letters of credit, is equal to or greater than 25% of the aggregate available principal amount of the Corporation Revolving Credit Facility on the applicable fiscal quarter end date.

In May 2020, the Company entered into an amendment to the Corporation Revolving Credit Facility and obtained a suspension of the Leverage Covenant from the beginning of the second quarter of 2020 through the end of the first quarter of 2021 (the "Four Quarter Suspension Period"). For the second quarter of 2021 through the fourth quarter of 2021, the leverage covenant calculation has been modified to use annualized EBITDA, as opposed to trailing twelve-month EBITDA. Additionally, the amendment provides for the Corporation to borrow up to $150.0 million from ESH REIT through an intercompany loan facility. Throughout the Four Quarter Suspension Period, the Company has agreed to maintain minimum liquidity of $150.0 million and to limit share repurchases and dividend payments made by the Corporation.

Covenants

The ESH REIT Credit Facilities, the 2027 Notes, the 2025 Notes, the Corporation Revolving Credit Facility and certain intercompany loan facilities contain a number of restrictive covenants that, among other things and subject to certain exceptions, limit the Corporation's or ESH REIT's ability and the ability of their respective subsidiaries to engage in certain transactions. In addition, the ESH REIT Revolving Credit Facility and the Corporation Revolving Credit Facility contain financial covenants that, subject to certain conditions, require compliance with certain senior loan-to-value and consolidated leverage ratios. The agreements governing the Corporation's and ESH REIT's indebtedness also contain certain customary representations and warranties, affirmative covenants and events of default, including, but not limited to, cross-defaults to certain other indebtedness and, in the case of the ESH REIT Credit Facilities and certain intercompany loan facilities, certain material operating leases and management agreements. As of September 30, 2020, the Corporation and ESH REIT were in compliance with all covenants under their respective debt agreements.

The Company's continued compliance with these covenants could be impacted by current or future economic conditions associated with the COVID-19 pandemic. The Company's failure to maintain compliance with its debt covenants or to pay debt obligations as they become due would give rise to default under one or more agreements governing the Company's indebtedness, and could entitle the lenders under the defaulted agreements to accelerate the maturity of the amounts thereunder, which could raise substantial doubt about the Company's ability to continue as a going concern. The Company may seek additional covenant waivers or amendments, though there is no certainty that it would be successful in such efforts.

Interest Expense, net—The components of net interest expense during the three and nine months ended September 30, 2020 and 2019, are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Contractual interest, net [(1)]	$ 30,057	$ 28,727	$ 93,136	$ 86,209
Amortization of deferred financing costs and debt discount	2,050	2,014	6,179	6,007
Other costs [(2)]	229	7,117	581	7,923
Interest income	(60)	(1,323)	(1,314)	(4,234)
Total	$ 32,276	$ 36,535	$ 98,582	$ 95,905

(1) Includes dividends on shares of mandatorily redeemable Corporation preferred stock. Net of capitalized interest of $0.7 million, $0.6 million, $2.3 million and $1.4 million, respectively.
(2) Includes interest expense on finance leases (see Note 12) and unused facility fees.

Mandatorily Redeemable Preferred Stock—The Corporation has authorized 350.0 million shares of preferred stock, $0.01 par value, of which 708 and 7,130 shares of mandatorily redeemable voting preferred stock were issued and outstanding as of September 30, 2020 and December 31, 2019, respectively. Dividends on these mandatorily redeemable voting 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 have the right to require the Corporation to redeem in cash the 8.0% voting preferred stock at $1,000 per share plus any accumulated unpaid dividends. In April 2020, 6,422 shares of the 8.0% mandatorily redeemable voting preferred stock were redeemed for $6.4 million. On November 15, 2020, the Corporation is required to redeem the remaining outstanding 8.0% voting preferred stock at $1,000 per share plus any accumulated unpaid dividends.

Fair Value of Debt and Mandatorily Redeemable Preferred Stock—As of September 30, 2020 and December 31, 2019, the estimated fair value of the Company's debt was $2.7 billion, and the estimated fair value of the Corporation's 8.0% mandatorily redeemable preferred stock was $0.7 million and $7.1 million, respectively. Estimated fair values are determined by comparing current borrowing rates and risk spreads offered in the market (Level 2 fair value measures) or quoted market prices (Level 1 fair value measures), when available, to the stated interest rates and spreads on the Company's debt and the Corporation's 8.0% mandatorily redeemable preferred stock. As of September 30, 2020 and December 31, 2019, the estimated fair value of the Corporation revolving credit facility is equal to its carrying value due to its short-term nature and frequent settlement.

8. DERIVATIVE INSTRUMENTS

ESH REIT is a counterparty to a floating-to-fixed interest rate swap at a fixed rate of 1.175% and a floating rate of one-month LIBOR to manage its exposure to interest rate risk on a portion of the ESH REIT Term Facility. The notional amount of the interest rate swap as of September 30, 2020 was $100.0 million. The notional amount decreases by an additional $50.0 million every six months until the swap's maturity in September 2021.

For the three and nine months ended September 30, 2020, the Company paid interest of $0.4 million and for the three and nine months ended September 30, 2019, the Company received proceeds of $0.7 million and $2.5 million, respectively, that offset interest expense. As of September 30, 2020, $0.8 million of interest expense is expected to be recognized over the following twelve months.

The table below presents the amounts and classification of the interest rate swap on the Company's condensed consolidated financial statements (in thousands):

	(Accrued liabilities) other assets	Accumulated other comprehensive (loss) income, net of tax	Interest expense (income), net
As of September 30, 2020	$ (781)	$ (664) (1)	
As of December 31, 2019	$ 831	$ 706 (2)	
For the three months ended September 30, 2020			$ 387
For the three months ended September 30, 2019			$ (704)
For the nine months ended September 30, 2020			$ 380
For the nine months ended September 30, 2019			$ (2,501)

(1) Changes during the nine months ended September 30, 2020, on a pre-tax basis, consisted of changes in fair value of $(1.6) million.
(2) Changes during the year ended December 31, 2019, on a pre-tax basis, consisted of changes in fair value of $(5.0) million.

9. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of Revenue

The following table disaggregates room revenues from owned hotels by booking source for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Property direct	$ 74,118	$ 77,459 (2)	$ 193,972	$ 222,714 (2)
Central call center	86,297	87,191 (2)	234,328	236,388 (2)
Proprietary website	59,012	60,742 (2)	158,594	171,398 (2)
Third-party intermediaries	50,595	84,226	148,266	237,065
Travel agency global distribution systems	3,034	11,051	12,211	31,764
Total room revenues from owned hotels (1)	$ 273,056	$ 320,669	$ 747,371	$ 899,329

(1) In addition to room revenues, the Company's owned hotels earned $7.6 million and $20.6 million of other hotel revenues during the three and nine months ended September 30, 2020, respectively, and $6.5 million and $17.8 million of other hotel revenues during the three and nine months ended September 30, 2019, respectively.
(2) As a result of the correction of a classification error, for the three months ended September 30, 2019, $5.9 million of room revenues that were previously classified as revenues generated from property direct have been reclassified and reported as $3.9 million of revenues generated from central call center and $2.0 million of revenues generated from proprietary website. For the nine months ended September 30, 2019, $14.2 million of room revenues that were previously classified as revenues generated from property direct have been reclassified and reported as $9.5 million of revenues generated from central call center and $4.7 million of revenues generated from proprietary website. The Company concluded that the effect of the error is immaterial to previously issued financial statements but has made the corrections for consistent presentation.

The following table disaggregates room revenues from owned hotels by length of guest stay for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
1-6 nights	$ 71,704	$ 118,700	$ 216,789	$ 341,176
7-29 nights	59,983	67,927	158,984	186,894
30+ nights	141,369	134,042	371,598	371,259
Total room revenues from owned hotels (1)	$ 273,056	$ 320,669	$ 747,371	$ 899,329

(1) In addition to room revenues, the Company's owned hotels earned $7.6 million and $20.6 million of other hotel revenues during the three and nine months ended September 30, 2020, respectively, and $6.5 million and $17.8 million of other hotel revenues during the three and nine months ended September 30, 2019, respectively.

The following table disaggregates revenues from franchised and managed hotels for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Management fees	$ 257	$ 312	$ 700	$ 972
Franchise fees	1,186	1,039	3,240	3,051
Indirect reimbursements (system service fees)	1,383	1,365	3,730	3,948
Direct reimbursements	2,454	2,835	7,342	8,873
Total revenues from franchised and managed hotels	$ 5,280	$ 5,551	$ 15,012	$ 16,844

Outstanding Contract Liabilities

Contract liabilities relate to advance deposits with respect to owned hotels and, with respect to franchised hotels, advance consideration received, such as initial franchise fees paid when a franchise agreement is executed and certain system implementation fees paid at the time of installation. Contract liabilities are included in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets. The following table presents outstanding contract liabilities as of September 30, 2020 and January 1, 2020, and the amount of outstanding January 1, 2020 contract liabilities recognized as revenue during the three and nine months ended September 30, 2020 (in thousands):

	Outstanding Contract Liabilities	Outstanding Contract Liabilities as of January 1, 2020 Recognized as Revenue
As of September 30, 2020	$ 18,398	
As of January 1, 2020	$ 16,231	
For the three months ended September 30, 2020		$ 113
For the nine months ended September 30, 2020		$ 10,845

Performance Obligations

As of September 30, 2020, $13.2 million of outstanding contract liabilities related to owned hotels and $5.2 million related to franchised hotels. The Company does not estimate revenues expected to be recognized related to unsatisfied performance obligations for royalty fees, system service fees or management fees, as they are considered either sales-based fees or allocated to wholly unsatisfied performance obligations in a series. Performance obligations related to owned hotels are expected to be satisfied within less than one year. Performance obligations related to third-party owned (i.e., franchised) hotels are expected to be satisfied over the term of the respective franchise agreements, which are typically 20 years.

10. SEGMENTS

The Company's operating segments are components of the business which are managed discretely and for which discrete financial information is reviewed regularly by its chief operating decision maker to assess performance and make decisions regarding the allocation of resources. The Company's operating and reportable segments are defined as follows:

- *Owned Hotels*—Earnings are derived from the operation of Company-owned hotel properties and include room and other hotel revenues.
- *Franchise and management*—Earnings are derived from fees under franchise and management agreements with third parties. These contracts provide the Company the ability to earn compensation for licensing the Extended Stay America brand name, providing access to shared system-wide platforms and/or management services.

The performance of the Company's operating segments is evaluated primarily on income from operations. Selected financial data is provided below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues:				
Owned hotels	$ 280,608	$ 327,144	$ 768,011	$ 917,177
Franchise and management [1]	2,284	2,332	6,243	6,774
Total segment revenues	282,892	329,476	774,254	923,951
Corporate and other [2]	19,503	18,506	58,131	57,724
Other revenues from franchised and managed properties [3]	3,837	4,200	11,072	12,821
Intersegment eliminations [4]	(20,344)	(19,487)	(60,434)	(60,475)
Total	$ 285,888	$ 332,695	$ 783,023	$ 934,021
Income from operations:				
Owned hotels	$ 62,105	$ 105,777	$ 135,967	$ 280,125
Franchise and management [1]	2,284	2,332	6,243	6,774
Total segment income from operations	64,389	108,109	142,210	286,899
Corporate and other [2]	(7,392)	(7,243)	(23,318)	(20,607)
Other expenses from franchised and managed properties, net [3]	(516)	(499)	(1,571)	(1,521)
Total	$ 56,481	$ 100,367	$ 117,321	$ 264,771

(1) Includes intellectual property fees charged to the owned hotels segment of $0.8 million and $2.3 million for the three and nine months ended September 30, 2020, respectively, and $1.0 million and $2.8 million for the three and nine months ended September 30, 2019, respectively, that are eliminated in the condensed consolidated statements of operations.

(2) Includes revenues generated and operating expenses incurred in connection with the overall support of owned, franchised and managed hotels and related operations. Corporate and other revenues are comprised of management fees earned by and cost reimbursements charged to the owned hotels segment that are eliminated in the condensed consolidated statements of operations.

(3) Includes direct reimbursement of specific costs incurred under franchise and management agreements that the Company is reimbursed for on a dollar-for-dollar basis as well as indirect reimbursement of certain costs incurred associated with the Company's shared platform (i.e., system services, see Note 2).

(4) Includes management fees, intellectual property fees and other cost reimbursements charged to the owned hotels segment that are eliminated in the condensed consolidated statements of operations.

Total assets for each of the Company's operating segments are provided below (in thousands):

	September 30, 2020	December 31, 2019
Assets:		
Owned hotels	$ 3,784,208	$ 3,661,609
Franchise and management	13,613	14,576
Total segment assets	3,797,821	3,676,185
Corporate and other	312,386	397,568
Intersegment eliminations	(40,274)	(43,157)
Total	$ 4,069,933	$ 4,030,596

Total capital expenditures for each of the Company's operating segments are provided below (in thousands):

	Nine Months Ended September 30,	
	2020	2019
Capital expenditures:		
Owned hotels	$ 143,073	$ 177,214
Corporate and other	1,841	799
Total	$ 144,914	$ 178,013

11. INCOME TAXES

The Corporation’s taxable income includes the taxable income of its wholly-owned subsidiaries and distribution income related to its ownership of 59% of ESH REIT.

ESH REIT has elected to be taxed as 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 gain, 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 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. ESH REIT intends to distribute its taxable income to the extent necessary to optimize its tax efficiency including, but not limited to, maintaining its REIT status, while retaining sufficient capital for its ongoing needs. 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.

The Company's quarterly provision for income taxes has historically been calculated using the annual effective tax rate method (“AETR method”), which applies an estimated annual effective tax rate to pre-tax income or loss. However, the Company recorded its interim income tax provision using the discrete method as of September 30, 2020, in accordance with ASC 740-270, *Accounting for Income Taxes - Interim Reporting*. The Company utilized the discrete method due to significant variations in income tax expense relative to projected annual pre-tax income (loss) that would result in a distortive effective tax rate using the AETR method. Using the discrete method, the Company determined current and deferred income tax expense as if the interim period were an annual period.

The Company recorded a benefit for federal, state and foreign income taxes of $7.1 million, an effective tax rate of (29.3)%, for the three months ended September 30, 2020, as compared to a provision of $10.5 million, an effective tax rate of 16.5%, for the three months ended September 30, 2019. The Company recorded a benefit for federal, state and foreign income taxes of $12.1 million, an effective tax rate of (65.3)%, for the nine months ended September 30, 2020, as compared to a provision of $27.8 million, an effective tax rate of 16.5%, for the nine months ended September 30, 2019. The Company's effective rate differs from the federal statutory rate of 21% due to ESH REIT's status as a REIT under the provisions of the Code and, for the three and nine months ended September 30, 2020, the passage of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which provides the Company the ability to carry back and utilize the Corporation's projected federal tax losses to higher tax rate years.

As of September 30, 2020, the Company has not completed its accounting for all tax effects related to the enactment of the CARES Act, including the ability to carry back losses to higher tax rate years. The Company is still analyzing the CARES Act and refining its calculations, including the CARES Act's impact on state income taxes, all of which are subject to complex rules and continued interpretation. The Company expects to complete its analysis prior to December 31, 2020.

The Company's income tax returns for the years 2016 to present are subject to examination by the Internal Revenue Service ("IRS") and other taxing authorities. As of September 30, 2020, a subsidiary of ESH REIT was under examination by the Canadian Revenue Agency for the tax years 2014 through 2017. As the examination is still in process, the timing of the resolution and any payments that may be required cannot be determined at this time. The Company believes that, to the extent a liability may exist, it is appropriately reserved as of September 30, 2020.

12. COMMITMENTS AND CONTINGENCIES

Lease Commitments—The Company is a tenant under long-term ground leases at five of its hotel properties. Three of these leases are operating leases and two are finance leases. The ground lease agreements terminate at various dates between 2023 and 2096 and several of the agreements include multiple renewal options for generally five or ten year periods. The Company is also a tenant under an operating lease for its corporate office, which terminates in August 2021 and includes renewal options for two five-year terms. As the Company is reasonably certain that it will exercise the options to extend its ground leases, fixed payments associated with the extensions are included in the measurement of related right-of-use assets and lease liabilities. Payments associated with the option to extend the corporate office lease are not included in the measurement of the right-of-use asset and lease liability, as the associated payments cannot be reasonably estimated. Additionally, as of September 30, 2020, the Company leased certain technology equipment located at its hotel sites under finance leases.

Operating lease costs related to ground leases are included in hotel operating expenses, while operating lease costs related to the Company's office lease are included in general and administrative expenses, in the condensed consolidated statements of operations. Finance lease interest costs are included in interest expense, net in the condensed consolidated statements of operations (see Note 7) or, when pertaining to assets under development, are capitalized and included in property and equipment, net on the condensed consolidated balance sheets (see Note 5). No amortization costs were incurred during the three and nine months ended September 30, 2020 and 2019 for finance leases pertaining to land or land in development. The Company has no variable lease costs or short-term leases.

For the three and nine months ended September 30, 2020 and 2019, the components of the Company's total lease costs are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease costs	$ 769	$ 794	$ 2,307	$ 2,332
Finance lease costs	77	61	223	183
Total lease costs	$ 846	$ 855	$ 2,530	$ 2,515

The Company's right-of-use assets and lease liabilities are as follows (in thousands):

	September 30, 2020	December 31, 2019
Right-of-use assets:		
Operating[(1)]	$ 3,132	$ 4,863
Finance[(2)]	4,370	3,979
Lease liabilities:		
Operating[(3)]	10,997	12,590
Finance	3,704	3,379

(1) Included in other assets on the accompanying condensed consolidated balance sheets.
(2) Included in property and equipment, net on the accompanying condensed consolidated balance sheets.
(3) Included in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets.

Maturities of lease liabilities as of September 30, 2020, are as follows (in thousands):

Years Ending December 31,	Operating Leases	Finance Leases
Remainder of 2020	$ 735	$ 97
2021	2,220	850
2022	807	397
2023	552	400
2024	503	402
2025	503	428
Thereafter	77,091	2,671
Total	$ 82,411	$ 5,245
Total discounted lease liability	$ 10,997	$ 3,704
Difference between undiscounted cash flows and discounted cash flows	$ 71,414	$ 1,541
Weighted-average remaining lease term	49 years	11 years
Weighted-average discount rate	6.5 %	6.7 %

The Company's leases do not contain residual value guarantees and do not contain restrictions with respect to incurring additional financial obligations or paying dividends. As of September 30, 2020, the Company does not have any material leases that have not yet commenced.

Letter of Credit—As of September 30, 2020, the Company had one outstanding letter of credit, issued by the Corporation, for $0.2 million, which is collateralized by the Corporation Revolving Credit Facility.

Legal Contingencies—As of September 30, 2020, six purported class action lawsuits in California have been filed against the Company. The complaints allege, among other things, failure to provide meal and rest periods, wage and hour violations and violations of the Fair Credit Reporting Act. The complaints seek, among other relief, collective and class certification of the lawsuits, unspecified damages, costs and expenses, including attorneys' fees, and such other relief as the court might find just and proper.

With respect to the Fair Credit Reporting Act violations alleged in the lawsuits described above, the parties reached a tentative settlement agreement in May 2019, which is subject to certain conditions, including court approval. During the three months ended June 30, 2019, the Company recorded a payable and a corresponding insurance receivable for the amount of the tentative settlement. The expected resolution of the alleged Fair Credit Reporting Act violations in the lawsuits did not have, and is not expected to have, a material adverse impact on the Company's condensed consolidated financial statements, results of operations or liquidity.

With respect to the meal and rest period and the wage and hour violations alleged in the lawsuits described above, excluding the one lawsuit described below, the parties reached a tentative settlement agreement in January 2020, which is subject to certain conditions, including court approval. During the three months ended December 31, 2019, the Company incurred a loss and recorded a charge equal to the amount of the tentative settlement. The expected resolution of the alleged meal and rest period and wage and hour violations in the lawsuits did not have, and is not expected to have, a material adverse impact on the Company's condensed consolidated financial statements, results of operations or liquidity.

With respect to one lawsuit, although the Company believes it is reasonably possible that it may incur losses associated with such matter, it is not possible to estimate the amount of loss or range of loss, if any, that might result from adverse judgments, settlements or other resolution based on the early stage of the lawsuit, the uncertainty as to the certification of a class or classes and the size of any certified class, if applicable, and the lack of resolution of significant factual and legal issues. However, depending on the amount and timing, an unfavorable resolution of the lawsuit or a change in the Company's assessment of the likelihood of loss could have a material adverse effect on the Company's condensed consolidated financial statements, results of operations or liquidity in a future period. The Company believes that it has meritorious defenses and is prepared to vigorously defend the lawsuit.

The Company is not a party to any additional 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 additional litigation and claims, individually or in the aggregate, will not have a material adverse effect on the Company's condensed consolidated financial statements, its business, results of operations and financial condition.

13. EQUITY-BASED COMPENSATION

The Corporation and ESH REIT each maintain a long-term incentive plan ("LTIP"), approved by their shareholders. Under each LTIP, the Corporation and ESH REIT may issue to eligible employees or directors restricted stock units ("RSUs") or other equity-based awards, in respect of Paired Shares, with service, performance or market vesting conditions. The aggregate number of Paired Shares that may be the subject of awards 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 LTIPs has a share reserve of an equivalent number of shares of Corporation common stock and ESH REIT Class B common stock. As of September 30, 2020, 4.2 million Paired Shares were available for future issuance under the LTIPs.

Equity-based compensation expense is recognized by amortizing the grant-date fair value 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 Corporation common stock and a portion is allocated to a share of ESH REIT Class B common stock. Equity-based compensation expense, which is included in general and administrative expenses in the accompanying condensed consolidated statements of operations, was $1.6 million and $4.6 million for the three and nine months ended September 30, 2020, respectively, and $1.9 million and $6.1 million for the three and nine months ended September 30, 2019.

As of September 30, 2020, unrecognized compensation expense related to outstanding equity-based awards and the related weighted-average period over which it is expected to be recognized subsequent to September 30, 2020, is presented in the following table. Total unrecognized compensation expense will be adjusted for forfeitures and the achievement of certain market-based conditions.

	Unrecognized Compensation Expense Related to Outstanding Awards (in thousands)	Remaining Weighted-Average Amortization Period (in years)
RSUs with service vesting conditions	$ 6,736	1.5
RSUs with market vesting conditions	2,887	2.0
Total unrecognized compensation expense	$ 9,623	

RSU activity during the nine months ended September 30, 2020, was as follows:

	Service-Based Awards		Performance-Based Awards - Market Vesting	
	Number of RSUs (in thousands)	Weighted-Average Grant-Date Fair Value	Number of RSUs (in thousands)	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2020	928	$ 16.77	255	$ 16.56
Granted	371	$ 12.37	290	$ 11.52
Settled	(353)	$ 15.91	(46)	$ 18.58
Forfeited	(216)	$ 16.70	(123)	$ 14.96
Outstanding at September 30, 2020	730	$ 14.24	376	$ 12.96
Vested at September 30, 2020	80	$ 15.05	—	$ —
Nonvested at September 30, 2020	650	$ 14.13	376	$ 12.96

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 one to three years, subject to the grantee’s continued employment or service. The grant-date fair value of awards with market vesting conditions is based on an independent valuation. These awards vest at the end of a three-year period, subject to the grantee’s continued employment, with the ability to earn Paired Shares in a range of 0% to 150% of the awarded number of RSUs based on the total shareholder return of a Paired Share relative to the total shareholder return of other publicly traded companies identified in the award agreements. During the nine months ended September 30, 2020, the grant-date fair value of awards with market vesting conditions were calculated using a Monte Carlo simulation model with the following key assumptions:

Expected holding period	2.92 years
Risk–free rate of return	1.43 %
Expected dividend yield	7.01 %

14. SUBSEQUENT EVENTS

Distribution

On November 9, 2020, the Board of Directors of the Corporation declared a cash distribution of $0.01 per share for the third quarter of 2020 on its common stock. This distribution is payable on December 8, 2020 to shareholders of record as of November 24, 2020.

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019
(In thousands, except share and per share data)
(Unaudited)

	September 30, 2020	December 31, 2019
ASSETS		
PROPERTY AND EQUIPMENT - Net of accumulated depreciation of $1,502,499 and $1,372,595	$ 3,486,948	$ 3,506,020
CASH AND CASH EQUIVALENTS	339,515	296,134
RENTS RECEIVABLE FROM EXTENDED STAY AMERICA, INC. (Note 10)	10,328	1,572
DEFERRED RENTS RECEIVABLE FROM EXTENDED STAY AMERICA, INC. (Note 10)	36,673	28,917
INTANGIBLE ASSETS - Net of accumulated amortization of $1,697 and $763	8,825	9,590
GOODWILL	44,012	44,012
OTHER ASSETS	21,999	21,209
TOTAL ASSETS	$ 3,948,300	$ 3,907,454
LIABILITIES AND EQUITY		
LIABILITIES:		
Term loan facility payable - Net of unamortized deferred financing costs and debt discount of $9,765 and $10,993	$ 614,835	$ 618,338
Senior notes payable - Net of unamortized deferred financing costs and debt discount of $31,284 and $35,702	2,018,716	2,014,298
Finance lease liabilities	3,704	3,379
Unearned rental revenues from Extended Stay America, Inc. (Note 10)	95,943	38,770
Due to Extended Stay America, Inc., net (Note 10)	6,952	11,838
Accounts payable and accrued liabilities	105,118	71,453
Deferred tax liabilities	9	11
Total liabilities	2,845,277	2,758,087
COMMITMENTS AND CONTINGENCIES (Note 11)		
EQUITY:		
Common stock - Class A: $0.01 par value, 4,300,000,000 shares authorized, 250,493,583 shares issued and outstanding; Class B: $0.01 par value, 7,800,000,000 shares authorized, 177,560,635 and 179,483,397 shares issued and outstanding	4,281	4,300
Additional paid in capital	1,051,780	1,050,740
Preferred stock—no par value, $1,000 liquidation value, 125 shares authorized, issued and outstanding	73	73
Retained earnings	47,671	93,424
Accumulated other comprehensive (loss) income	(782)	830
Total equity	1,103,023	1,149,367
TOTAL LIABILITIES AND EQUITY	$ 3,948,300	$ 3,907,454

See accompanying notes to condensed consolidated financial statements.

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
REVENUES - Rental revenues from Extended Stay America, Inc. (Note 10)	$ 126,469	$ 139,455	$ 365,145	$ 375,562
OPERATING EXPENSES:				
Hotel operating expenses	22,236	21,577	70,052	64,822
General and administrative expenses (Note 10)	3,648	3,477	11,584	11,002
Depreciation and amortization	51,355	48,885	151,070	144,884
Impairment of long-lived assets	—	—	675	—
Total operating expenses	77,239	73,939	233,381	220,708
OTHER INCOME	—	—	—	15
INCOME FROM OPERATIONS	49,230	65,516	131,764	154,869
OTHER NON-OPERATING (INCOME) EXPENSE	(136)	79	179	(194)
INTEREST EXPENSE, NET	31,829	36,882	97,454	97,083
INCOME BEFORE INCOME TAX EXPENSE	17,537	28,555	34,131	57,980
INCOME TAX EXPENSE	10	88	21	98
NET INCOME	$ 17,527	$ 28,467	$ 34,110	$ 57,882
NET INCOME PER ESH HOSPITALITY, INC. COMMON SHARE:				
Class A - basic	$ 0.04	$ 0.07	$ 0.08	$ 0.13
Class A - diluted	$ 0.04	$ 0.07	$ 0.08	$ 0.13
Class B - basic	$ 0.04	$ 0.07	$ 0.08	$ 0.13
Class B - diluted	$ 0.04	$ 0.07	$ 0.08	$ 0.13
WEIGHTED-AVERAGE ESH HOSPITALITY, INC. COMMON SHARES OUTSTANDING:				
Class A - basic	250,494	250,494	250,494	250,494
Class A - diluted	250,494	250,494	250,494	250,494
Class B - basic	177,629	186,844	177,723	188,063
Class B - diluted	178,198	187,015	178,071	188,317

See accompanying notes to condensed consolidated financial statements.

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
NET INCOME	$ 17,527	$ 28,467	$ 34,110	$ 57,882
OTHER COMPREHENSIVE INCOME (LOSS):				
INTEREST RATE CASH FLOW HEDGE GAIN (LOSS), NET OF TAX OF $0, $0, $1, $2	389	(806)	(1,612)	(4,820)
COMPREHENSIVE INCOME	$ 17,916	$ 27,661	$ 32,498	$ 53,062

See accompanying notes to condensed consolidated financial statements.

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(In thousands, except preferred stock shares and per share data)
(Unaudited)

	Common Stock			Preferred Stock		Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Equity
	Class A Shares	Class B Shares	Amount	Shares	Amount				
BALANCE - July 1, 2019	250,494	188,412	$ 4,389	125	$ 73	$ 1,091,845	$ 15,919	$ 1,775	$ 1,114,001
Net income	—	—	—	—	—	—	28,467	—	28,467
Interest rate cash flow hedge loss, net of tax	—	—	—	—	—	—	—	(806)	(806)
Repurchase of Class B common stock	—	(3,993)	(40)	—	—	—	(20,847)	—	(20,887)
Common distributions - $0.15 per Class A and Class B common share	—	—	—	—	—	(41,832)	(24,092)	—	(65,924)
Preferred distributions	—	—	—	—	—	—	(4)	—	(4)
Equity-based compensation	—	82	1	—	—	123	—	—	124
BALANCE - September 30, 2019	250,494	184,501	$ 4,350	125	$ 73	$ 1,050,136	$ (557)	$ 969	$ 1,054,971

	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 - July 1, 2020	250,494	177,482	$ 4,280	125	$ 73	$ 1,051,560	$ 34,426	$ (1,171)	$ 1,089,168
Net income	—	—	—	—	—	—	17,527	—	17,527
Interest rate cash flow hedge gain, net of tax	—	—	—	—	—	—	—	389	389
Common distributions - $0.01 per Class A and Class B common share	—	—	—	—	—	—	(4,278)	—	(4,278)
Preferred distributions	—	—	—	—	—	—	(4)	—	(4)
Equity-based compensation	—	79	1	—	—	220	—	—	221
BALANCE - September 30, 2020	250,494	177,561	$ 4,281	125	$ 73	$ 1,051,780	$ 47,671	$ (782)	$ 1,103,023

	Common Stock			Preferred Stock					
	Class A Shares	Class B Shares	Amount	Shares	Amount	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Equity
BALANCE - January 1, 2019	250,494	188,219	$ 4,387	125	$ 73	$ 1,090,809	$ 114,096	$ 5,789	$ 1,215,154
Net income	—	—	—	—	—	—	57,882	—	57,882
Interest rate cash flow hedge loss, net of tax	—	—	—	—	—	—	—	(4,820)	(4,820)
Repurchase of Class B common stock	—	(3,993)	(40)	—	—	—	(20,847)	—	(20,887)
Common distributions - $0.44 per Class A and Class B common share	—	—	—	—	—	(41,832)	(151,676)	—	(193,508)
Preferred distributions	—	—	—	—	—	—	(12)	—	(12)
Equity-based compensation	—	275	3	—	—	1,159	—	—	1,162
BALANCE - September 30, 2019	250,494	184,501	$ 4,350	125	$ 73	$ 1,050,136	$ (557)	$ 969	$ 1,054,971

	Common Stock			Preferred Stock					
	Class A Shares	Class B Shares	Amount	Shares	Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE - January 1, 2020	250,494	179,483	$ 4,300	125	$ 73	$ 1,050,740	$ 93,424	$ 830	$ 1,149,367
Net income	—	—	—	—	—	—	34,110	—	34,110
Interest rate cash flow hedge loss, net of tax	—	—	—	—	—	—	—	(1,612)	(1,612)
Repurchase of Class B common stock	—	(2,237)	(22)	—	—	—	(11,384)	—	(11,406)
Common distributions - $0.16 per Class A and Class B common share	—	—	—	—	—	—	(68,467)	—	(68,467)
Preferred distributions	—	—	—	—	—	—	(12)	—	(12)
Equity-based compensation	—	315	3	—	—	1,040	—	—	1,043
BALANCE - September 30, 2020	250,494	177,561	$ 4,281	125	$ 73	$ 1,051,780	$ 47,671	$ (782)	$ 1,103,023

See accompanying notes to condensed consolidated financial statements.

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
OPERATING ACTIVITIES:		
Net income	$ 34,110	$ 57,882
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	151,070	144,884
Foreign currency transaction loss (gain)	179	(194)
Amortization of deferred financing costs and debt discount	6,067	11,540
Debt modification and extinguishment costs	—	82
Loss on disposal of property and equipment	6,309	5,037
Impairment of long-lived assets	675	—
Equity-based compensation	381	411
Deferred income tax benefit	(3)	(5)
Changes in assets and liabilities:		
Deferred rents receivable from Extended Stay America, Inc.	(7,756)	(15,432)
Due to Extended Stay America, Inc., net	(5,314)	2,222
Other assets	(3,497)	(6,257)
Unearned rental revenues/rents receivable from Extended Stay America, Inc., net	48,417	116,085
Accounts payable and accrued liabilities	38,546	31,708
Net cash provided by operating activities	269,184	347,963
INVESTING ACTIVITIES:		
Purchases of property and equipment	(83,836)	(124,192)
Development in process payments	(58,301)	(42,116)
Payment for intangible assets	(501)	(6,081)
Proceeds from insurance and related recoveries	987	914
Net cash used in investing activities	(141,651)	(171,475)
FINANCING ACTIVITIES:		
Principal payments on term loan facility	(4,731)	(505,683)
Proceeds from issuance of senior notes	—	750,000
Proceeds from revolving credit facility	350,000	—
Payments on revolving credit facility	(350,000)	—
Payments of deferred financing costs	(17)	(17,983)
Principal payments on finance leases	(102)	(86)
Debt modification and extinguishment costs	—	(82)
Repurchase of Class B common stock	(11,406)	(20,887)
Issuance of Class B common stock related to issuance of Paired Shares	964	1,462
Common distributions	(68,852)	(193,421)
Preferred distributions	(8)	(8)
Net cash (used in) provided by financing activities	(84,152)	13,312
NET INCREASE IN CASH AND CASH EQUIVALENTS	43,381	189,800
CASH AND CASH EQUIVALENTS - Beginning of period	296,134	178,538
CASH AND CASH EQUIVALENTS - End of period	$ 339,515	$ 368,338

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019 (CONTINUED)
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2020	**2019**
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash payments for interest, excluding modification, prepayment and other penalties, net of capitalized interest of $2,283 and $1,373	$ 67,991	$ 68,389
Cash payments for income taxes, net of refunds of $181 and $0	$ 410	$ 742
Operating cash payments for finance leases	$ 187	$ 183
Operating cash payments for operating leases	$ 581	$ 532
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital expenditures included in due to/from Extended Stay America, Inc. and accounts payable and accrued liabilities	$ 18,937	$ 27,072
Additions to finance lease right-of-use assets and liabilities	$ 427	$ 109
Deferred financing costs included in accounts payable and accrued liabilities	$ —	$ 2,254
Debt modification and extinguishment costs included in accounts payable and accrued liabilities	$ —	$ 1,006
Common distributions included in accounts payable and accrued liabilities	$ 355	$ 879
Net receivable (payable) related to RSUs not yet settled or issued included in due to/from Extended Stay America, Inc.	$ 205	$ (32)

See accompanying notes to condensed consolidated financial statements.

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"), the parent of ESH REIT, was incorporated in the state of Delaware on July 8, 2013. The Corporation owns, and is expected to continue to own, all of the issued and outstanding Class A common stock of ESH REIT, which, as of September 30, 2020, represents 59% of the outstanding common stock of ESH REIT.

A "Paired Share" consists 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. Each outstanding share of ESH REIT Class B common stock is attached to and trades with one share of Corporation common stock.

As of September 30, 2020 and December 31, 2019, ESH REIT and its subsidiaries owned and leased 562 and 557 hotel properties, respectively, in 40 U.S. states, consisting of approximately 62,500 and 61,900 rooms, respectively. All hotels are leased to wholly-owned subsidiaries of the Corporation (the "Operating Lessees").

Paired Share Repurchase Program—In December 2015, the Boards of Directors of the Corporation and ESH REIT authorized a combined Paired Share repurchase program. As a result of several increases in authorized amounts and program extensions, the combined Paired Share repurchase program currently authorizes the Corporation and ESH REIT to purchase up to $550 million in Paired Shares through December 31, 2020. Repurchases may be made at management's discretion from time to time in the open market, in privately negotiated transactions or by other means (including through Rule 10b5-1 trading plans). As of September 30, 2020, ESH REIT had repurchased and retired 28.6 million ESH REIT Class B common shares for $166.4 million, including transaction fees, and $101.1 million remained available under the combined Paired Share repurchase program.

Basis of Consolidation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP"), and include the financial position, results of operations, comprehensive income, changes in equity and cash flows of ESH REIT and its consolidated subsidiaries. Changes in ownership interests in a consolidated subsidiary that do not result in a loss of control are accounted for as equity transactions. 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 condensed consolidated financial statements. ESH REIT believes the disclosures made are adequate to prevent the information presented from being misleading. However, the condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2019, included in the combined annual report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on February 26, 2020.

The accompanying 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, 2020, the results of ESH REIT's operations, comprehensive income and changes in equity for the three and nine months ended September 30, 2020 and 2019 and cash flows for the nine months ended September 30, 2020 and 2019. Interim results are not necessarily indicative of full year performance because of acquisitions, dispositions, financing or other capital transactions and the impact of accounting for variable rental payments under lease arrangements, as well as the impact of the COVID-19 pandemic.

Use of Estimates—The preparation of the accompanying condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses during the reporting period. Management used significant estimates to determine the estimated useful lives of tangible assets, as well as in the assessment of tangible and intangible assets 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 2 to 49 years.

Management assesses long-lived assets for potential impairment quarterly, as well as when events or changes in circumstances indicate the carrying amount of an asset or group of assets may not be recoverable. The identification of events or changes in circumstances that indicate the carrying value of assets may not be recoverable requires judgment. ESH REIT reviews for impairment indicators at the lowest level of identifiable cash flows based on quantitative, qualitative and certain industry-related factors. Quantitative factors include, but are not limited to, hotel property EBITDA, EBITDA margins and EBITDA multiples, and serve to screen assets or asset groups with historical, current or projected operating cash flow losses or deterioration. Qualitative factors include a change in physical condition, economic environment, regulatory environment or primary use, including the evaluation of the asset or group of assets for disposition.

Recoverability of property and equipment is measured by a comparison of the carrying amount of a hotel property or group of hotel properties (grouped under ESH REIT's leases) to the estimated future undiscounted cash flows expected to be generated by the hotel property or group of hotel properties. Impairment is recognized when estimated future undiscounted cash flows, including expected proceeds from disposition, are less than the carrying value of the hotel property or group of hotel properties. To the extent that a hotel property or group of hotel properties is impaired, the excess carrying amount over estimated fair value is recognized as an impairment charge. Fair value is determined based upon the discounted cash flows of the hotel property or group of hotel properties, bids, quoted market prices or independent appraisals, as considered necessary.

The estimation and evaluation of future cash flows, in particular the holding period for real estate assets and asset composition and/or concentration within real estate portfolios, relies on judgments and assumptions regarding holding period, current and future operating performance and current and future market conditions. It is possible that such judgments and/or estimates will change; in particular, the effects of the COVID-19 pandemic could cause economic and market conditions to continue to deteriorate, and if this occurs, or if ESH REIT's expected holding period for real estate assets changes, ESH REIT may recognize impairment charges or losses on sale in future periods reflecting either changes in estimate, circumstance or the estimated market value of assets. No impairment charges were recognized during the three months ended September 30, 2020. During the nine months ended September 30, 2020, ESH REIT recognized an impairment charge of $0.7 million related to an undeveloped land parcel. Based on market conditions and ESH REIT's plans with respect to its hotel properties as of September 30, 2020, ESH REIT believes that the carrying amounts of its hotel properties are recoverable and no additional impairment charges were recorded during the three and nine months ended September 30, 2020; however, actual results are subject to a high degree of uncertainty due to the volatility of macroeconomic trends.

Intangible Assets and Goodwill—Intangible assets include licenses related to certain internal-use software. Licenses are amortized using the straight-line method over their estimated useful life, which is the remaining non-cancellable term of each respective contract. Goodwill represents the purchase price in excess of the fair value of net assets acquired in conjunction with the acquisition of ESH REIT's predecessor in 2010.

Definite-lived intangible assets are reviewed for impairment quarterly and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is reviewed for impairment quarterly, and ESH REIT tests for impairment more frequently if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ESH REIT has one operating segment, which is its reporting unit; therefore, management analyzes goodwill associated with all hotels when analyzing for potential impairment. ESH REIT first assesses qualitative factors to determine if it is more likely than not that the fair value of its reporting unit is less than its carrying amount.

ESH REIT believes that the carrying amount of its intangible assets, including goodwill, are recoverable and there are no changes in circumstances that would more likely than not reduce the fair value of its reporting unit below its carrying amount; therefore, no impairment charges were recorded during the three and nine months ended September 30, 2020. However, if the effects of the COVID-19 pandemic cause economic and market conditions to continue to deteriorate, these events could result in impairment charges in the future. Actual results are subject to a high degree of uncertainty due to the volatility of macroeconomic trends.

Revenue Recognition—ESH REIT's sole source of revenues is rental revenue derived from operating leases with subsidiaries of the Corporation (i.e., all revenues are generated from agreements with related parties (see Note 10)). Rental revenues are recorded on a straight-line basis as they are earned during the lease terms. Rents receivable from Extended Stay America, Inc. on the accompanying condensed consolidated balance sheets represent monthly rental amounts contractually due. Deferred rents receivable from Extended Stay America, Inc. on the accompanying condensed consolidated balance sheets represent the cumulative difference between straight-line rental revenues recognized and rental revenues contractually due. Lease rental payments received prior to rendering services are included in unearned rental revenues from Extended Stay America, Inc. on the accompanying condensed consolidated balance sheets. Variable rental revenues, specifically percentage rental revenues related to hotel revenues of the Operating Lessees, are recognized when such amounts are fixed and determinable (i.e., only when percentage rental revenue thresholds have been achieved).

Recently Issued Accounting Standards

Reference Rate Reform—In March 2020, the FASB issued an accounting standards update that provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships that reference LIBOR, subject to meeting certain criteria. ESH REIT adopted this update on March 12, 2020, and the update is effective through December 31, 2022, during which time ESH REIT may elect to apply the optional expedients and exceptions offered under the standard. ESH REIT's variable rate debt and interest rate swap are tied to rates that reference LIBOR (see Notes 7 and 8). As of September 30, 2020, ESH REIT had not applied any of these optional expedients or exceptions. The adoption of this update did not, and is not expected to, have a material effect on ESH REIT's condensed consolidated financial statements.

Income Taxes—In December 2019, the FASB issued an accounting standards update which simplifies the accounting for income taxes. The update amends several topics including interim period accounting for enacted changes in tax law and year-to-date loss limitation in interim-period tax accounting. This update will be effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2020, and may be early adopted. ESH REIT does not expect the adoption of this update to have a material effect on its condensed consolidated financial statements.

Fair Value Measurement—In August 2018, the FASB issued an accounting standards update which modifies the disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurement*. ESH REIT adopted this update on January 1, 2020. The adoption of this update did not have a material effect on ESH REIT's condensed consolidated financial statements.

Intangibles-Goodwill and Other—Internal-Use Software—In August 2018, the FASB issued an accounting standards update which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. ESH REIT adopted this update on January 1, 2020, using a prospective transition method. The adoption of this update did not have a material effect on ESH REIT's condensed consolidated financial statements.

Goodwill—In January 2017, the FASB issued an accounting standards update in which the guidance on testing for goodwill was updated to eliminate Step 2 in the determination on whether goodwill should be considered impaired. Annual and/or interim assessments are still required. ESH REIT adopted this update on January 1, 2020, using a prospective transition method. The adoption of this update did not have a material effect on ESH REIT's condensed consolidated financial statements.

3. 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 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 unrestricted Class A and Class B common stock outstanding, respectively, plus potentially dilutive securities. Dilutive securities include certain equity-based awards and are included in the calculation provided that the inclusion of such securities is not anti-dilutive.

The calculations of basic and diluted net income per share, including a reconciliation of the numerators and denominators, are as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income	$ 17,527	$ 28,467	$ 34,110	$ 57,882
Less preferred dividends	(4)	(4)	(12)	(12)
Net income available to ESH Hospitality, Inc. common shareholders	$ 17,523	$ 28,463	$ 34,098	$ 57,870
Class A:				
Net income available to ESH Hospitality, Inc. Class A common shareholders - basic	$ 10,253	$ 16,303	$ 19,946	$ 33,054
Amounts attributable to ESH Hospitality, Inc. Class B shareholders assuming conversion	(14)	(6)	(16)	(19)
Net income available to ESH Hospitality, Inc. Class A common shareholders - diluted	$ 10,239	$ 16,297	$ 19,930	$ 33,035
Class B:				
Net income available to ESH Hospitality, Inc. Class B common shareholders - basic	$ 7,270	$ 12,160	$ 14,152	$ 24,816
Amounts attributable to ESH Hospitality, Inc. Class B shareholders assuming conversion	14	6	16	19
Net income available to ESH Hospitality, Inc. Class B common shareholders - diluted	$ 7,284	$ 12,166	$ 14,168	$ 24,835
Denominator:				
Class A:				
Weighted-average number of ESH Hospitality, Inc. Class A common shares outstanding - basic and diluted	250,494	250,494	250,494	250,494
Class B:				
Weighted-average number of ESH Hospitality, Inc. Class B common shares outstanding - basic	177,629	186,844	177,723	188,063
Dilutive securities	569	171	348	254
Weighted-average number of ESH Hospitality, Inc. Class B common shares outstanding - diluted	178,198	187,015	178,071	188,317
Net income per ESH Hospitality, Inc. common share - Class A - basic	$ 0.04	$ 0.07	$ 0.08	$ 0.13
Net income per ESH Hospitality, Inc. common share - Class A - diluted	$ 0.04	$ 0.07	$ 0.08	$ 0.13
Net income per ESH Hospitality, Inc. common share - Class B - basic	$ 0.04	$ 0.07	$ 0.08	$ 0.13
Net income per ESH Hospitality, Inc. common share - Class B - diluted	$ 0.04	$ 0.07	$ 0.08	$ 0.13

4. HOTEL ACQUISITIONS

No hotels were acquired during the three and nine months ended September 30, 2020. On November 12, 2019, ESH REIT acquired a 121-room operating hotel from Crestwood Suites of Lakeland, LLC for $10.0 million. Other than ordinary components of prorated net working capital, no liabilities were assumed in the purchase. The majority of the purchase price was allocated to building and improvements, with estimated useful lives ranging from 5 to 44 years.

5. PROPERTY AND EQUIPMENT

Net investment in property and equipment as of September 30, 2020 and December 31, 2019, consists of the following (in thousands):

	September 30, 2020	December 31, 2019
Hotel properties:		
Land and site improvements (1)	$ 1,248,495	$ 1,230,598
Building and improvements	2,891,120	2,824,061
Furniture, fixtures and equipment (2)	785,750	751,417
Total hotel properties	4,925,365	4,806,076
Development in process (3)	63,082	70,864
Other	1,000	1,675
Total cost	4,989,447	4,878,615
Less accumulated depreciation:	(1,502,499)	(1,372,595)
Property and equipment — net	$ 3,486,948	$ 3,506,020

(1) Includes finance lease asset of $4.0 million and $3.2 million as of September 30, 2020 and December 31, 2019, respectively.
(2) Includes finance lease asset of $0.4 million and $0 as of September 30, 2020 and December 31, 2019, respectively.
(3) Includes finance lease asset of $0 and $0.8 million as of September 30, 2020 and December 31, 2019, respectively.

As of September 30, 2020 and December 31, 2019, development in process consisted of 10 and 15 land parcels, respectively, that were in various phases of construction and/or development. As of September 30, 2020, ESH REIT expects to delay commencement of construction of three of these locations as a result of current market uncertainty.

During the three and nine months ended September 30, 2020, and the year ended December 31, 2019, the following owned, newly constructed hotels were completed and leased to the Corporation:

Opening Date	Location	Number of Hotels	Number of Rooms
December 2019	Florida	1	124
December 2019	Arizona	1	136
March 2020	Florida	1	120
April 2020	South Carolina	1	120
June 2020	Georgia	1	124
June 2020	Texas	1	124
August 2020	Florida	1	124

During the three and nine months ended September 30, 2020, these hotels contributed rental revenues, total operating expenses and income before income tax expense as follows (in thousands):

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Rental revenues	$ 1,939	$ 3,703
Total operating expenses	1,492	3,149
Income before income tax expense	447	554

No impairment charges were recognized during the three months ended September 30, 2020. During the nine months ended September 30, 2020, ESH REIT recognized an impairment charge of $0.7 million related to an undeveloped land parcel. ESH REIT used Level 2 observable inputs, including a non-binding bid to sell the undeveloped land parcel, and Level 3 unobservable inputs, including estimated transaction costs, to determine the impairment charge incurred during the nine months ended September 30, 2020. No impairment charges were recognized during the three and nine months ended September 30, 2019.

6. INTANGIBLE ASSETS AND GOODWILL

ESH REIT's intangible assets and goodwill as of September 30, 2020 and December 31, 2019, consist of the following (dollars in thousands):

	September 30, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Definite-lived intangible assets—software licenses	$ 10,522	$ (1,697)	$ 8,825
Goodwill	44,012	—	44,012
Total intangible assets and goodwill	$ 54,534	$ (1,697)	$ 52,837

	December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Definite-lived intangible assets—software licenses	$ 10,353	$ (763)	$ 9,590
Goodwill	44,012	—	44,012
Total intangible assets and goodwill	$ 54,365	$ (763)	$ 53,602

The remaining weighted-average amortization period for amortizing intangible assets is approximately 7 years as of September 30, 2020. Estimated future amortization expense for amortizing intangible assets is as follows (in thousands):

Years Ending December 31,	
Remainder of 2020	$ 311
2021	1,246
2022	1,246
2023	1,246
2024	1,246
2025	1,246
Thereafter	2,284
Total	$ 8,825

7. DEBT

Summary—ESH REIT's outstanding debt, net of unamortized debt discount and unamortized deferred financing costs, as of September 30, 2020 and December 31, 2019, consists of the following (dollars in thousands):

		Carrying Amount		Unamortized Deferred Financing Costs			
Loan	**Stated Amount**	**September 30, 2020**	**December 31, 2019**	**September 30, 2020**	**December 31, 2019**	**Stated Interest Rate**	**Maturity Date**
Term loan facility							
ESH REIT Term Facility	$ 630,909	$ 622,855 (1)	$ 627,368 (1)	$ 8,020	$ 9,030	LIBOR (2) + 2.00%	9/18/2026 (3)
Senior notes							
2025 Notes	1,300,000	1,293,973 (4)	1,292,986 (4)	12,938	15,055	5.25%	5/1/2025
2027 Notes	750,000	750,000	750,000	12,319	13,633	4.63%	10/1/2027
Revolving credit facility							
ESH REIT Revolving Credit Facility	350,000	—	—	2,200 (5)	2,606 (5)	LIBOR (2) + 2.00%	9/18/2024
Unsecured intercompany facility							
ESH REIT Intercompany Facility	75,000	—	—	—	—	5.00%	9/18/2026
Total		$ 2,666,828	$ 2,670,354	$ 35,477	$ 40,324		

(1) The ESH REIT Term Facility (defined below) is presented net of an unamortized debt discount of $1.7 million and $2.0 million as of September 30, 2020 and December 31, 2019, respectively.
(2) As of September 30, 2020 and December 31, 2019, one-month LIBOR was 0.15% and 1.76%, respectively. As of September 30, 2020 and December 31, 2019, $100.0 million and $200.0 million, respectively, of the ESH REIT Term Facility was subject to an interest rate swap at a fixed rate of 1.175%.
(3) Amortizes in equal quarterly installments of $1.6 million. In addition to scheduled amortization, subject to certain exceptions, annual mandatory prepayments of up to 50% of Excess Cash Flow, as defined, may be required commencing with the year ending December 31, 2020. Annual mandatory prepayments for a given fiscal year are due during the first quarter of the following fiscal year.
(4) The 2025 Notes (defined below) are presented net of an unamortized discount of $6.0 million and $7.0 million as of September 30, 2020 and December 31, 2019, respectively.
(5) Unamortized deferred financing costs related to the revolving credit facility are included in other assets in the accompanying consolidated balance sheets.

ESH REIT Credit Facilities

ESH REIT's credit agreement, as may be amended and supplemented from time to time, provides for senior secured credit facilities (collectively, the "ESH REIT Credit Facilities") which consist of a $630.9 million senior secured term loan facility (the "ESH REIT Term Facility") and a $350.0 million senior secured revolving credit facility (the "ESH REIT Revolving Credit Facility"). Subject to the satisfaction of certain criteria, borrowings under the ESH REIT Credit Facilities may be increased by an amount of up to $600.0 million, plus additional amounts, so long as, after giving effect to the incurrence of such incremental facility and the application of proceeds thereof, ESH REIT's pro-forma senior loan-to-value ratio is less than or equal to 45%.

ESH REIT Term Facility—The ESH REIT Term Facility bears interest at a rate equal to (i) LIBOR plus 1.75% for any period during which ESH REIT maintains a public corporate family rating better than or equal to BB (with a stable or better outlook) from S&P and Ba3 (with a stable or better outlook) from Moody's (a "Level 1 Period") or LIBOR plus 2.00% for any period other than a Level 1 Period; or (ii) a base rate (determined by reference to the highest of (A) the prime lending rate, (B) the overnight federal funds rate plus 0.50% or (C) the one-month adjusted LIBOR rate plus 1.00%), plus 0.75% during a Level 1 Period or 1.00% for any period other than a Level 1 Period. ESH REIT has the option to voluntarily prepay outstanding loans under the ESH REIT Term Facility at any time without penalty.

ESH REIT Revolving Credit Facility—Borrowings under the ESH REIT Revolving Credit Facility bear interest at a rate equal to (i) LIBOR plus a spread that ranges from 1.50% to 2.00% based on ESH REIT's Consolidated Total Net Leverage Ratio, as defined, or (ii) a base rate (determined by reference to the highest of (A) the prime lending rate, (B) the overnight federal funds rate plus 0.50%, or (C) the one-month adjusted LIBOR rate plus 1.00%) plus a spread that ranges from 0.50% to 1.00% based on ESH REIT's Consolidated Total Net Leverage Ratio, as defined. ESH REIT incurs a fee of 0.30% or 0.175% on the unutilized revolver balance based on the amount outstanding under the facility. ESH REIT is also required to pay customary letter of credit fees and agency fees. The ESH REIT Revolving Credit Facility provides for the issuance of up to $50.0 million of letters of credit. As of September 30, 2020, ESH REIT had no letters of credit outstanding and available borrowing capacity of $350.0 million under the facility.

In March 2020, ESH REIT borrowed the full available capacity of $350.0 million under the ESH REIT Revolving Credit Facility as a precautionary measure in order to increase its cash position and preserve financial flexibility in light of uncertainty in business markets resulting from the COVID-19 pandemic. In August 2020, ESH REIT repaid the full outstanding balance under the ESH REIT Revolving Credit Facility. As of September 30, 2020, the outstanding balance under the facility was $0.

ESH REIT 2025 Notes

In May 2015 and March 2016, ESH REIT issued $500.0 million and $800.0 million, respectively, of its 5.25% senior notes due in May 2025 (the “2025 Notes”) under an indenture with Deutsche Bank Trust Company Americas, as trustee, in private placements pursuant to Rule 144A of the Securities Act of 1933, as amended. 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, plus accrued and unpaid interest. 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.

ESH REIT 2027 Notes

In September 2019, ESH REIT issued $750.0 million of its 4.625% senior notes due in 2027 (the “2027 Notes”) under an indenture with Deutsche Bank Trust Company Americas, as trustee, at a price equal to 100% of par value in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. ESH REIT may redeem the 2027 Notes at any time on or after October 1, 2022, in whole or in part, at a redemption price equal to 102.313% of the principal amount, declining annually to 100% of the principal amount from October 1, 2024 and thereafter, plus accrued and unpaid interest. Prior to October 1, 2022, ESH REIT may redeem the 2027 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a “make-whole” premium, as defined, plus accrued and unpaid interest. Prior to October 1, 2022, subject to certain conditions, ESH REIT may redeem up to 35% of the aggregate principal amount of the 2027 Notes at a redemption price equal to 101% of the aggregate principal amount, 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 2027 Notes have the right to require ESH REIT to redeem the 2027 Notes at 101% of the principal amount, plus accrued and unpaid interest.

ESH REIT Intercompany Facility

In August 2016, ESH REIT, as borrower, and the Corporation, as lender, entered into an unsecured intercompany credit facility, as may be amended and supplemented from time to time (the “ESH REIT Intercompany Facility”). Under the ESH REIT Intercompany Facility, ESH REIT may borrow up to $300.0 million, plus additional amounts, in each case subject to certain conditions. Loans under the ESH REIT Intercompany Facility bear interest at an annual rate of 5.0%. ESH REIT has the option to prepay outstanding balances under the facility without penalty. As of September 30, 2020 and December 31, 2019, the amount outstanding under the facility was $0.

Covenants

The ESH REIT Credit Facilities, the 2027 Notes, the 2025 Notes, and the ESH REIT Intercompany Facility contain a number of restrictive covenants that, among other things and subject to certain exceptions, limit ESH REIT’s ability and the ability of its subsidiaries to engage in certain transactions. In addition, the ESH REIT Revolving Credit Facility contains a financial covenant that, subject to certain conditions, requires compliance with a certain senior loan-to-value ratio. The agreements governing ESH REIT’s indebtedness also contain certain customary representations and warranties, affirmative covenants and events of default, including, but not limited to, cross-defaults to certain other indebtedness and, in the case of the ESH REIT Credit Facilities and the ESH REIT Intercompany Facility, certain material operating leases and management agreements. As of September 30, 2020, ESH REIT was in compliance with all covenants under its debt agreements.

ESH REIT’s continued compliance with these covenants could be impacted by current or future economic conditions associated with the COVID-19 pandemic. ESH REIT's failure to maintain compliance with its debt covenants or to pay debt obligations as they become due would give rise to a default under one or more of the agreements governing its indebtedness, and could entitle the lenders under the defaulted agreements to accelerate the maturity of the amounts thereunder, which could raise substantial doubt about ESH REIT's ability to continue as a going concern. ESH REIT may seek covenant waivers or amendments, though there is no certainty that it would be successful in such efforts.

Interest Expense, net—The components of net interest expense during the three and nine months ended September 30, 2020 and 2019, are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Contractual interest, net (1)	$ 29,734	$ 28,584	$ 92,185	$ 85,781
Amortization of deferred financing costs and debt discount	2,022	1,987	6,068	5,925
Other costs (2)	227	7,058	546	7,773
Interest income	(154)	(747)	(1,345)	(2,396)
Total	$ 31,829	$ 36,882	$ 97,454	$ 97,083

(1) Net of capitalized interest of $0.7 million, $0.6 million, $2.3 million and $1.4 million, respectively.
(2) Includes interest expense on finance leases (see Note 11) and unused facility fees.

Fair Value of Debt—As of September 30, 2020 and December 31, 2019, the estimated fair value of ESH REIT's debt was $2.6 billion and $2.7 billion, respectively. Estimated fair values are determined by comparing current borrowing rates and risk spreads offered in the market (Level 2 fair value measures) or quoted market prices (Level 1 fair value measures), when available, to the stated interest rates and spreads on ESH REIT's debt. As of December 31, 2019, the estimated fair value of the ESH REIT Revolving Credit Facility was equal to its carrying value due to its short-term nature and frequent settlement.

8. DERIVATIVE INSTRUMENTS

ESH REIT is a counterparty to a floating-to-fixed interest rate swap at a fixed rate of 1.175% and a floating rate of one-month LIBOR to manage its exposure to interest rate risk on a portion of the ESH REIT Term Facility. The notional amount of the interest rate swap as of September 30, 2020 was $100.0 million. The notional amount decreases by an additional $50.0 million every six months until the swap's maturity in September 2021.

For the three and nine months ended September 30, 2020, ESH REIT paid interest of $0.4 million and for the three and nine months ended September 30, 2019, ESH REIT received proceeds of $0.7 million and $2.5 million, respectively, that offset interest expense. As of September 30, 2020, $0.8 million of interest expense is expected to be recognized over the following twelve months.

The table below presents the amounts and classification of the interest rate swap on ESH REIT's condensed consolidated financial statements (in thousands):

	(Accrued liabilities) other assets	Accumulated other comprehensive (loss) income, net of tax	Interest expense (income), net
As of September 30, 2020	$ (781)	$ (782) (1)	
As of December 31, 2019	$ 831	$ 830 (2)	
For the three months ended September 30, 2020			$ 387
For the three months ended September 30, 2019			$ (704)
For the nine months ended September 30, 2020			$ 380
For the nine months ended September 30, 2019			$ (2,501)

(1) Changes during the nine months ended September 30, 2020, on a pre-tax basis, consisted of changes in fair value of $1.6 million.
(2) Changes during the year ended December 31, 2019, on a pre-tax basis, consisted of changes in fair value of $(5.0) million.

9. 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 gain, 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 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. ESH REIT intends to distribute its taxable income to the extent necessary to optimize its tax efficiency including, but not limited to, maintaining its REIT status, while retaining sufficient capital for its ongoing needs. 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.

ESH REIT recorded a provision for state income taxes of less than $0.1 million, an effective tax rate of 0.1%, for each of the three and nine months ended September 30, 2020. ESH REIT recorded a provision for state income taxes of $0.1 million, an effective tax rate of 0.3% and 0.2%, respectively, for the three and nine months ended September 30, 2019. ESH REIT's tax rate differs from the federal statutory rate of 21% due to its status as a REIT under the provisions of the Code.

ESH REIT's income tax returns for the years 2016 to present are subject to examination by the Internal Revenue Service and other taxing authorities. As of September 30, 2020, a subsidiary of ESH REIT was under examination by the Canadian Revenue Agency for the tax years 2014 through 2017. As the examination is still in process, the timing of the resolution and any payments that may be required cannot be determined at this time. ESH REIT believes that, to the extent a liability may exist, it is appropriately reserved as of September 30, 2020.

10. RELATED PARTY TRANSACTIONS

Revenues and Expenses

Leases and Rental Revenues—All revenues are generated as a result of, and earned from, three operating leases with related parties. The counterparty to each lease agreement is a subsidiary of the Corporation. Fixed and variable rental revenues for the three and nine months ended September 30, 2020 and 2019 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Fixed rental revenues	$ 120,237	$ 118,005	$ 358,913	$ 354,016
Variable rental revenues[(1)]	6,232	21,450	6,232	21,546

(1) Regardless of whether cash rental payments are received, ESH REIT only recognizes revenue when a lessee's revenue exceeds specific thresholds stated in the lease.

Each lease agreement has a five-year term that expires in October 2023 and contains an automatic five-year renewal, unless lessee provides notice that it will not renew no later than thirty months prior to expiration. Upon renewal, minimum and percentage rents will be adjusted to reflect then-current market terms. Future fixed rental payments to be received under current remaining noncancellable lease terms are as follows (in thousands):

Years Ending December 31,	
Remainder of 2020	$ 117,639
2021	483,733
2022	495,886
2023	423,361
Total	$ 1,520,619

Overhead Expenses—The Corporation incurs costs under a services agreement between the Corporation and ESH REIT for certain overhead services performed on each entities' behalf. The services relate to executive management, accounting, financial analysis, training and technology. For the three and nine months ended September 30, 2020, ESH REIT incurred $2.6 million and $7.9 million, respectively, and for the three and nine months ended September 30, 2019, ESH REIT incurred $2.5 million and $7.3 million, respectively, included in general and administrative expenses in the accompanying condensed consolidated statements of operations, related to these services. Expenses incurred under this services agreement also include expenses related to certain employees that participate in the Corporation's long-term incentive plan. Such charges were $0.3 million and $0.8 million for the three and nine months ended September 30, 2020, respectively, and $0.2 million and $0.8 million for the three and nine months ended September 30, 2019, respectively.

Capital Transactions

Corporation Intercompany Facility—In July 2020, the Corporation, as borrower, and ESH REIT, as lender, entered into an unsecured credit facility (the "Corporation Intercompany Facility"). Under the Corporation Intercompany Facility, the Corporation may borrow up to $150.0 million. Loans under the facility bear interest at an annual rate of 4.5%. In addition to paying interest on outstanding principal, the Corporation is required to pay a commitment fee to ESH REIT of 0.25% on the unutilized facility balance. There is no scheduled amortization under the facility and the facility matures on July 2, 2025. Obligations under the Corporation Intercompany Facility and guarantees thereof are unsecured and fully subordinated to the obligations of the Corporation under its revolving credit facility. The Corporation has the option to prepay outstanding balances under the facility without penalty. As of September 30, 2020, the outstanding balance under the facility was $0.

ESH REIT Intercompany Facility—As of September 30, 2020 and December 31, 2019, there were no outstanding balances owed by ESH REIT to the Corporation under the ESH REIT Intercompany Facility, and ESH REIT incurred no interest expense during the three and nine months ended September 30, 2020 and 2019 related to the ESH REIT Intercompany Facility. ESH REIT is able to borrow under the ESH REIT Intercompany Facility up to $300.0 million, plus additional amounts, in each case subject to certain conditions (see Note 7).

Distributions—During the three and nine months ended September 30, 2020, ESH REIT paid distributions of $2.5 million and $40.1 million, respectively, and during the three and nine months ended September 30, 2019, ESH REIT paid distributions of $37.6 million and $110.2 million, respectively, to the Corporation in respect of the Class A common stock of ESH REIT.

Issuance of Common Stock—During each of the three months ended September 30, 2020 and 2019, ESH REIT was compensated $0.2 million for the issuance of 0.1 million shares of Class B common stock, each of which was attached to a share of Corporation common stock to form a Paired Share, used to settle vested restricted stock units (“RSUs”). During each of the three months ended March 31, 2020 and 2019, ESH REIT was compensated $0.7 million and $1.2 million, respectively, for the issuance of 0.2 million shares of Class B common stock, each of which was attached to a share of Corporation common stock to form a Paired Share, used to settle vested RSUs.

As of September 30, 2020, the Corporation has granted a total of 1.1 million RSUs, whereby as a counterparty to these outstanding RSUs, ESH REIT is expected to issue and be compensated in cash for 1.1 million shares of Class B common stock of ESH REIT in future periods, assuming market-based awards vest at 100% and no forfeitures.

Related Party Balances

Related party transaction balances as of September 30, 2020 and December 31, 2019, include the following (in thousands):

	September 30, 2020	December 31, 2019
Leases:		
Rents receivable[(1)]	$ 10,328	$ 1,572
Deferred rents receivable[(2)]	$ 36,673	$ 28,917
Unearned rental revenues[(1)]	$ (95,943)	$ (38,770)
Working capital and other:		
Ordinary working capital[(3)]	$ (7,157)	$ (12,160)
Equity awards receivable[(4)]	205	322
Total working capital and other, net[(5)]	$ (6,952)	$ (11,838)

(1) Rents receivable relate to percentage rents. As of September 30, 2020, unearned rental revenues related to October 2020 fixed minimum rent of $39.1 million and percentage rent of $56.8 million. As of December 31, 2019, unearned rental revenues related to January 2020 fixed minimum rent.
(2) Revenues recognized in excess of cash rents received.
(3) Represents disbursements and/or receipts made by the Corporation or ESH REIT on the other entity’s behalf. Includes overhead costs incurred by the Corporation on ESH REIT’s behalf.
(4) Represents amounts related to RSUs not yet settled or issued.
(5) Outstanding balances are typically repaid within 30 days.

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments—ESH REIT is a tenant under long-term ground leases at five of its hotel properties. Three of these leases are operating leases and two are finance leases. The ground lease agreements terminate at various dates between 2023 and 2096 and several of the agreements include multiple renewal options for generally five or ten year periods. As ESH REIT is reasonably certain that it will exercise the options to extend its ground leases, fixed payments associated with the extensions are included in the measurement of related right-of-use assets and lease liabilities. Additionally, as of September 30, 2020, ESH REIT leased certain technology equipment located at its hotel sites under finance leases.

Operating lease costs related to ground leases are included in hotel operating expenses in the condensed consolidated statements of operations. Finance lease interest costs are included in interest expense, net in the condensed consolidated statements of operations (see Note 7) or, when pertaining to assets under development, are capitalized and included in property and equipment, net on the condensed consolidated balance sheets (see Note 5). No amortization costs were incurred during the three and nine months ended September 30, 2020 and 2019 for finance leases pertaining to land or land in development. ESH REIT has no variable lease costs or short-term leases.

For the three and nine months ended September 30, 2020 and 2019, components of ESH REIT's total lease costs are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease costs	$ 326	$ 351	$ 979	$ 1,004
Finance lease costs	77	61	223	183
Total lease costs	$ 403	$ 412	$ 1,202	$ 1,187

ESH REIT's right-of-use assets and lease liabilities are as follows (in thousands):

	September 30, 2020	December 31, 2019
Right-of-use assets:		
Operating[(1)]	$ 1,564	$ 2,084
Finance[(2)]	4,370	3,979
Lease liabilities:		
Operating[(3)]	9,082	9,207
Finance	3,704	3,379

(1) Included in other assets on the accompanying condensed consolidated balance sheets.
(2) Included in property and equipment, net on the accompanying condensed consolidated balance sheets.
(3) Included in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets.

Maturities of lease liabilities as of September 30, 2020, are as follows (in thousands):

Years Ending December 31,	Operating Leases	Finance Leases
Remainder of 2020	$ 196	$ 97
2021	784	850
2022	807	397
2023	552	400
2024	503	402
2025	503	428
Thereafter	77,091	2,671
Total	$ 80,436	$ 5,245
Total discounted lease liability	$ 9,082	$ 3,704
Difference between undiscounted cash flows and discounted cash flows	$ 71,354	$ 1,541
Weighted-average remaining lease term	59 years	11 years
Weighted-average discount rate	6.6 %	6.7 %

ESH REIT's leases do not contain residual value guarantees and do not contain restrictions with respect to incurring additional financial obligations or paying dividends. As of September 30, 2020, ESH REIT does not have any leases that have not yet commenced.

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 its business. ESH REIT believes that the results of all litigation and claims, individually or in the aggregate, will not have a material adverse effect on its condensed consolidated financial statements, its business, results of operations and financial condition.

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

The following discussion should be read in conjunction with the condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q.

Background and Certain Defined Terms

The following defined terms relate to our corporate structure and lodging industry operating metrics. Unless otherwise indicated or the context requires:

- *ADR* or *average daily rate* means hotel room revenues divided by total number of rooms sold in a given period.
- *Company* means the Corporation, ESH REIT and their subsidiaries considered as a single enterprise.
- *Corporation* means 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 currently represents 59% of the outstanding common stock of ESH REIT.
- *ESA Management* means ESA Management LLC, a Delaware limited liability company and wholly-owned subsidiary of the Corporation, and its subsidiaries, which manage Extended Stay America-branded hotel properties on behalf of the Operating Lessees and third parties.
- *ESH REIT* means 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 all of its hotel properties to the Operating Lessees.
- *ESH Strategies* means ESH Hospitality Strategies LLC, a Delaware limited liability company and wholly-owned subsidiary of the Corporation, and one of its subsidiaries, ESH Strategies Branding LLC, a Delaware limited liability company, which owns the intellectual property related to our businesses and licenses it to the Operating Lessees and ESH Strategies Franchise (as defined below).
- *ESH Strategies Franchise* means ESH Strategies Franchise LLC, a Delaware limited liability company and wholly-owned subsidiary of ESH Strategies, that licenses the Extended Stay America brand name from ESH Strategies and in-turn relicenses it to third-party franchisees.
- *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, prior to the COVID-19 pandemic, between $55 and $105.
- *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.
- *Operating Lessees* means the wholly-owned subsidiaries of the Corporation that each lease a group of hotels from subsidiaries of ESH REIT and operate the Company-owned hotels.
- *Paired Share* means one share of common stock, par value $0.01 per share, of the Corporation together with one share of Class B common stock, par value $0.01 per share, of ESH REIT, which are attached and trade as a single unit.
- *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 ancillary revenues, such as food and beverage revenues, or parking, pet, WiFi upgrade, telephone or other guest service revenues.
- *System-wide hotels* means all hotels that are operated under the Extended Stay America brand and that are owned, franchised and/or managed by the Company. As of September 30, 2020, there were 638 system-wide hotels.
- *Third-party intermediaries* are unaffiliated distribution channels that sell hotel inventory, including ours, for a fee on the internet. Third-party intermediaries currently include Expedia.com and Booking.com (and their respective affiliated brands and distribution channels, such as Priceline, Hotwire, Kayak and Trivago) and may in the future include search engines such as Google and alternative lodging suppliers such as Airbnb and HomeAway.

The following discussion may contain forward-looking statements. Actual results may differ materially from those suggested by any forward-looking statements for various reasons, including those discussed in "Risk Factors" in the 2019 Form 10-K and in "Item 1A. Risk Factors" contained in this quarterly report, 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.

We present below separate results of operations for each of the Company and ESH REIT. Our assets and operations, other than ownership of our real estate assets, which are owned by ESH REIT, are held directly by the Corporation. The Corporation owns all of the issued and outstanding shares of Class A common stock of ESH REIT, representing 59% 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.

Overview

We are the largest integrated owner/operator of company-branded hotels in North America. Our business operates in the extended-stay segment of the lodging industry, and we have the following reportable operating segments:

- *Owned Hotels*—Earnings are derived from the operation of Company-owned hotel properties and include room and other hotel revenues, which accounted for 98.1% of total revenues for the nine months ended September 30, 2020.
- *Franchise and management*—Earnings are derived from fees under various franchise and management agreements with third parties, which accounted for 1.9% of total revenues for the nine months ended September 30, 2020. These contracts provide us the ability to earn compensation for licensing the Extended Stay America brand name, providing access to shared system-wide platforms and/or management services.

Extended Stay America-branded 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 who need lodging for more than a week. Guests include business travelers, leisure travelers, professionals on temporary work or training assignments, persons relocating, the temporarily displaced, those purchasing a home and anyone else in need of temporary housing.

As of September 30, 2020, we owned and operated 562 hotel properties in 40 U.S. states, consisting of approximately 62,500 rooms, and franchised or managed 76 hotel properties for third parties, consisting of approximately 7,800 rooms. All 638 system-wide hotels operate under the Extended Stay America brand, which serves the mid-price extended stay segment and accounts for approximately 41% of the segment by number of rooms in the United States ("U.S.").

RevPAR for owned hotels was $47.60 and $43.95 for the three and nine months ended September 30, 2020, respectively, and $56.66 and $53.53 for the three and nine months ended September 30, 2019, respectively. RevPAR for comparable system-wide hotels, which includes hotels owned, franchised or managed for the full three and nine months ended September 30, 2020 and 2019, respectively, was $46.75 and $43.06 for the three and nine months ended September 30, 2020, respectively, and $54.78 and $51.81 for the three and nine months ended September 30, 2019, respectively.

During the trailing twelve months ended September 30, 2020, 31.1%, 21.1% and 47.8% of our owned hotel room revenues were derived from guests with stays from 1-6 nights, from 7-29 nights and for 30 or more nights, respectively. For the trailing twelve months ended September 30, 2020, 25.3% of our owned hotel room revenues were derived from property-direct reservations, 30.5% were derived from our central call center, 20.8% were derived from our own proprietary website, 21.4% were derived from third party intermediaries and 2.0% were derived from travel agencies using global distribution systems.

During the trailing twelve months ended September 30, 2020, 53.3% of our franchise and management fees and related revenues were derived from franchising activities and 46.7% were derived from management activities. Franchisees typically pay an initial application fee, along with monthly royalty and system service fees for the licensing of our brand and the use of our shared system-wide platforms, such as marketing, technology infrastructure, central reservations, national sales and revenue management systems. The standard term for our franchise agreements is generally 20 years.

We seek to drive our competitive advantage by targeting our product and service offering to an underserved customer base within the lodging industry and the extended stay segment, and by driving economies of scale through our national distribution system and concentration of hotels in certain markets. As the only major hotel company focused solely on the extended stay segment, we focus on operational excellence in our core business, which consists of a focus on property operations and the delivery of a consistent, quality guest experience. Operational excellence also includes a focus on our efficient, scalable marketing and sales platforms to achieve the most effective use of commercial distribution channels identified as successful in driving targeted guests into our hotels. In addition to owning and operating hotels, we have increased, and intend to continue to increase, our fee-based income stream, which we receive when we franchise our brand to third parties and, in certain instances, manage hotels on behalf of our franchisees. Additionally, we seek to maximize the value and increase the overall quality of our real estate portfolio by selling non-strategic hotels over time and in certain instances franchise our brand to those buyers.

Our current and future plans include the following:

- investing capital in our hotels on an ongoing basis and through future cyclical hotel renovations where justified by anticipated returns on investment;
- completing construction of seven to 10 newly built Extended Stay America hotels we expect to own and operate;
- extracting value from our real estate portfolio through the sale of select hotels;
- franchising the Extended Stay America brand to newly constructed hotels built and owned by third parties;
- converting existing hotels to the Extended Stay America brand, either as franchises or owned hotels;
- repurposing and/or rebuilding certain of our hotel properties; and
- exploring acquisitions of additional hotel properties and/or companies.

Recent Updates

COVID-19 Pandemic

During the three and nine months ended September 30, 2020, primarily as a result of the COVID-19 pandemic, the Company experienced material adverse declines in RevPAR, net income, Adjusted EBITDA and cash flow from operations. For the three months ended September 30, 2020, the Company's RevPAR and Adjusted EBITDA declined 16.0% and 27.9%, respectively, compared with the three months ended September 30, 2019. For the nine months ended September 30, 2020, the Company's RevPAR and Adjusted EBITDA declined 17.9% and 33.2%, respectively, compared with the nine months ended September 30, 2019.

We expect a decline in total revenues and income from operations for the year ended December 31, 2020, compared with the year ended December 31, 2019, in addition to declines in RevPAR and Adjusted EBITDA. Similarly, it is likely that ESH REIT will experience a material decline in rental revenues and income from operations for the year ended December 31, 2020, compared with the year ended December 31, 2019. Our fiscal year 2020 results are not complete and performance for the remainder of the fourth quarter is subject to risks and uncertainties, in particular the ongoing impact of the COVID-19 pandemic, which could cause actual fourth quarter results to deviate from current trends or estimates. In such event, the Company does not expect to, and undertakes no obligation to, announce changes in its expectations or estimates prior to the announcement of actual fourth quarter results. See "Part I. Item 1A. Risk Factors" in the 2019 Form 10-K, as well as "Item 1A. Risk Factors" below.

As a result of the pandemic and its impact on our business, we have focused on attracting guests staying for one week or longer, which has proven more resilient to-date than the broader lodging industry. Additionally, we have implemented certain reductions to expenses in order to reduce costs, conserve financial and employee resources, and maintain liquidity. While the evolution and resulting impact of this pandemic is highly uncertain, we believe our business model has been resilient in absorbing the impact of the COVID-19 pandemic compared to the broader lodging industry. See "Item 1A. Risk Factors."

Hotel Acquisitions and New Hotel Openings

The table below summarizes hotel acquisitions and owned, newly constructed hotel openings during the nine months ended September 30, 2020 and the year ended December 31, 2019. All hotels were converted or opened under the Extended Stay America brand.

Date	Location	Number of Hotels	Number of Rooms	Acquisition / New-Build
November 2019	Florida	1	121	Acquisition
December 2019	Florida	1	124	New-Build
December 2019	Arizona	1	136	New-Build
March 2020	Florida	1	120	New-Build
April 2020	South Carolina	1	120	New-Build
June 2020	Georgia	1	124	New-Build
June 2020	Texas	1	124	New-Build
August 2020	Florida	1	124	New-Build

Hotel Pipeline

As of September 30, 2020, the Company had a pipeline of 65 hotels, which consisted of the following:

Company-Owned Pipeline & Recently Opened Hotels as of September 30, 2020									
Under Option		Pre-Development		Under Construction		Total Pipeline		Opened YTD	
# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms
—	—	4	504	6	764	10	1,268	5	612

Third-Party Pipeline & Recently Opened Hotels as of September 30, 2020									
Commitments		Applications		Executed		Total Pipeline		Opened YTD	
# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms
28	3,472	—	—	27	3,184	55	6,656	3	280

Definitions

Under Option	Locations with a signed purchase and sale agreement
Pre-Development	Land purchased, permitting and/or site work
Under Construction	Hotel is under construction
Commitments	Signed commitment to build or convert a certain number of hotels by a third party, generally associated with a prior portfolio sale
Applications	Third party filed franchise application with deposit
Executed	Franchise and development application approved, geography identified and deposits paid, various stages of pre-development and/or construction

The Company expects to delay commencement of construction of three pre-development locations as a result of current market uncertainty. We also expect delays in certain third-party pipeline activity. The length of such delays and severity of the impact on our business, including our financial position, results of operations and liquidity, is highly uncertain.

Understanding Our Results of Operations—The Company

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, 2020:

	Percentage of 2020 Year to Date Total Revenues
• *Room revenues*. Room revenues relate to owned hotels and are driven primarily by ADR and occupancy. Pricing policy and customer mix are significant drivers of ADR. Room revenues and similar measures or metrics are presented and/or discussed with respect to owned hotels only as opposed to on a system-wide basis. System-wide hotels include all owned, franchised and/or managed hotels.	95.4%
• *Other hotel revenues*. Other hotel revenues relate to owned hotels and include ancillary revenues such as laundry revenues, vending commissions, additional housekeeping fees, purchased WiFi upgrades, parking revenues and pet charges. Occupancy and customer mix, as well as the number and percentage of guests that have longer-term stays, have been historical drivers of our other hotel revenues.	2.6%
• *Franchise and management fees*. Franchise and management fees include royalty and other fees charged to third party hotel owners for use of our brand name and hotel management services. The substantial majority of these fees are based on a percentage of revenues of the franchised or managed hotels.	0.5%
• *Other revenues from franchised and managed properties*. Other revenues from franchised and managed properties include the direct reimbursement of specific costs, such as on-site personnel, incremental reservation costs and other distribution costs, incurred by us for which we are reimbursed on a dollar-for-dollar basis by third party hotel owners. Additionally, these revenues include fees charged, based on a percentage of revenue of the franchised hotel, as reimbursement for indirect costs incurred by us associated with certain shared system-wide platforms (i.e., system services), such as marketing, technology infrastructure, central reservations, national sales and revenue management systems.	1.5%

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, 2020:

	Percentage of 2020 Year to Date Total Operating Expenses
• *Hotel operating expenses*. Hotel operating expenses relate to owned hotels and have both fixed and variable components. Operating expenses that are relatively fixed include personnel expense, real estate tax expense and property insurance premiums. Occupancy is a key driver of expenses that have a high degree of variability, such as housekeeping services and amenity costs. Other variable expenses include marketing costs, reservation costs, property insurance claims and repairs and maintenance expense.	64.3%
• *General and administrative expenses*. General and administrative expenses include expenses associated with corporate overhead. Costs consist primarily of compensation expense of our corporate staff, including equity-based compensation and severance costs, and professional fees, including audit, tax and consulting fees, legal fees and legal settlement costs.	10.6%
• *Depreciation and amortization*. Depreciation and amortization relates primarily to the acquisition and usage of hotels and other property and equipment, including capital expenditures incurred with respect to renovations and other capital expenditures.	23.1%
• *Impairment of long-lived assets*. Impairment of long-lived assets is a charge recognized when events and circumstances indicate that the carrying value of a real estate asset, including an individual hotel asset or a group of hotel assets, may not be recoverable. The estimation and evaluation of future cash flows, which is a key factor in determining the amount and/or timing of impairment charges, in particular the holding period for real estate asset composition and/or concentration within real estate portfolios, relies on judgments and assumptions regarding holding period, current and future operating and economic performance and current and future market conditions. It is possible that such judgments and/or estimates will change; if this occurs, we may recognize additional impairment charges reflecting either changes in estimate, circumstance or the estimated market value of our assets.	0.2%
• *Other expenses from franchised and managed properties*. Other expenses from franchised and managed properties include specific costs, such as on-site hotel personnel expense, incremental reservation costs and other distribution costs, incurred by us in the delivery of services for which we are reimbursed on a dollar-for-dollar basis. Additionally, these expenses include costs associated with shared system-wide platforms (i.e., system services), such as marketing, technology infrastructure, central reservations, national sales and revenue management systems for which we are reimbursed over time through system service (i.e., program) fees.	1.8%

Understanding Our Results of Operations—ESH REIT

Revenues. ESH REIT's sole source of revenues is lease rental revenues. ESH REIT's rental revenues are generated from leasing its hotel properties to subsidiaries of the Corporation. Rental revenues consist of fixed minimum rental payments recognized on a straight-line basis over the lease terms plus variable rental payments based on specified percentages of annual 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, 2020:

	Percentage of 2020 Year to Date Total Operating Expenses
• *Hotel operating expenses*. ESH REIT's hotel operating expenses include expenses directly related to hotel ownership, such as real estate tax expense, property insurance premiums and loss on disposal of certain capital assets.	30.0%
• *General and administrative expenses.* General and administrative expenses include overhead expenses incurred directly by ESH REIT and certain administrative service costs reimbursed to the Corporation.	5.0%
• *Depreciation and amortization*. Depreciation and amortization relate primarily to the acquisition and usage of hotels and other property and equipment, including capital expenditures incurred with respect to renovations and other capital expenditures.	64.7%
• *Impairment of long-lived assets.* Impairment of long-lived assets is a charge recognized when events and circumstances indicate that the carrying value of a real estate asset, including an individual hotel asset or a group of hotel assets, may not be recoverable. The estimation and evaluation of future cash flows, which is a key factor in determining the amount and/or timing of impairment charges, in particular the holding period for real estate asset composition and/or concentration within real estate portfolios, relies on judgments and assumptions regarding holding period, current and future operating and economic performance and current and future market conditions. It is possible that such judgments and/or estimates will change; if this occurs, we may recognize additional impairment charges reflecting either changes in estimate, circumstance or the estimated market value of our assets.	0.3%

Results of Operations

Results of Operations discusses the Company's and ESH REIT's condensed consolidated financial statements, each of which have been prepared in accordance with U.S. GAAP. The condensed consolidated financial statements of the Company include the financial position, results of operations, comprehensive income, changes in equity and cash flows of the Corporation and its subsidiaries, including ESH REIT. Third-party equity interests in ESH REIT, which consist primarily of the Class B common stock of ESH REIT and represent 41% of ESH REIT's total common equity, are not owned by the Corporation and therefore are presented as noncontrolling interests. The condensed consolidated financial statements of ESH REIT include the financial position, results of operations, comprehensive income, changes in equity and cash flows of ESH REIT and its subsidiaries.

Results of Operations—The Company

As of September 30, 2020, the Company owned and operated 562 hotels, consisting of approximately 62,500 rooms, and franchised or managed 76 hotels for third parties, consisting of approximately 7,800 rooms. As of September 30, 2019, the Company owned and operated 554 hotels, consisting of approximately 61,500 rooms, and franchised or managed 72 hotels for third parties, consisting of approximately 7,400 rooms.

Comparison of Three Months Ended September 30, 2020 and September 30, 2019

The following table presents the Company's consolidated results of operations for the three months ended September 30, 2020 and 2019, including the amount and percentage change in these results between the periods (in thousands):

	Three Months Ended September 30,			
	2020	2019	Change ($)	Change (%)
Revenues:				
Room revenues	$ 273,056	$ 320,669	$ (47,613)	(14.8)%
Other hotel revenues	7,552	6,475	1,077	16.6%
Franchise and management fees	1,443	1,351	92	6.8%
	282,051	328,495	(46,444)	(14.1)%
Other revenues from franchised and managed properties	3,837	4,200	(363)	(8.6)%
Total revenues	285,888	332,695	(46,807)	(14.1)%
Operating Expenses:				
Hotel operating expenses	149,156	152,913	(3,757)	(2.5)%
General and administrative expenses	23,193	22,292	901	4.0%
Depreciation and amortization	52,286	49,748	2,538	5.1%
Impairment of long-lived assets	420	2,679	(2,259)	(84.3)%
	225,055	227,632	(2,577)	(1.1)%
Other expenses from franchised and managed properties	4,353	4,699	(346)	(7.4)%
Total operating expenses	229,408	232,331	(2,923)	(1.3)%
Other income	1	3	(2)	(66.7)%
Income from operations	56,481	100,367	(43,886)	(43.7)%
Other non-operating (income) expense	(155)	101	(256)	(253.5)%
Interest expense, net	32,276	36,535	(4,259)	(11.7)%
Income before income tax (benefit) expense	24,360	63,731	(39,371)	(61.8)%
Income tax (benefit) expense	(7,132)	10,501	(17,633)	(167.9)%
Net income	31,492	53,230	(21,738)	(40.8)%
Net income attributable to noncontrolling interests[1]	(7,272)	(12,159)	4,887	(40.2)%
Net income attributable to Extended Stay America, Inc. common shareholders	$ 24,220	$ 41,071	$ (16,851)	(41.0)%

(1) Noncontrolling interests in Extended Stay America, Inc. include 41% and 42% of ESH REIT's common equity as of September 30, 2020 and 2019, respectively, and 125 shares of ESH REIT preferred stock.

The following table presents key operating metrics, including occupancy, ADR, RevPAR and hotel inventory for the Company's owned hotels for the three months ended September 30, 2020 and 2019, respectively:

	Three Months Ended September 30,		
	2020	**2019**	**Change**
Number of hotels (as of September 30)	562	554	8
Number of rooms (as of September 30)	62,545	61,552	993
Occupancy	79.2%	80.8%	(160) bps
ADR	$60.09	$70.10	(14.3)%
RevPAR	$47.60	$56.66	(16.0)%

Room revenues. Room revenues decreased by $47.6 million, or 14.8%, to $273.1 million for the three months ended September 30, 2020, compared to $320.7 million for the three months ended September 30, 2019, due to a 16.0% decrease in RevPAR as a result of a 14.3% decrease in ADR and a 160 basis point decrease in occupancy due to material business disruption as a result of the COVID-19 pandemic. We anticipate that continued disruption resulting from the COVID-19 pandemic, as well as potential changes in customer behavior, will result in a material adverse decrease in room revenues for the year ending December 31, 2020, compared with the year ended December 31, 2019. The length and severity of such impact is highly uncertain.

Other hotel revenues. Other hotel revenues increased by $1.1 million, or 16.6%, to $7.6 million for the three months ended September 30, 2020, compared to $6.5 million for the three months ended September 30, 2019, due to reimbursements received from certain third-party intermediaries of $0.4 million and increases in laundry revenue, internet access revenue and pet revenue that totaled $0.6 million.

Franchise and management fees. Franchise and management fees remained consistent at $1.4 million for each of the three months ended September 30, 2020 and 2019. We expect franchise and management fees to increase over time if additional franchised hotels open in the future.

Other revenues from franchised and managed properties. Other revenues from franchised and managed properties decreased by $0.4 million, or 8.6%, to $3.8 million for the three months ended September 30, 2020, compared to $4.2 million for the three months ended September 30, 2019, due to a decrease in direct reimbursable costs resulting from the termination of two management agreements in the third quarter of 2019.

Hotel operating expenses. Hotel operating expenses decreased by $3.8 million, or 2.5%, to $149.2 million for the three months ended September 30, 2020, compared to $152.9 million for the three months ended September 30, 2019. The decrease in hotel operating expenses was primarily due to declines in certain variable costs, including reservation costs of $4.4 million related to a decrease in commissionable bookings through third-party intermediaries, $2.3 million in costs related to the temporary suspension of our grab-and-go breakfast, credit card fees of $2.1 million and marketing costs of $0.8 million. These decreases were partially offset by increases in allowance for uncollectible guest balances of $3.6 million, property insurance of $0.8 million, personal protective equipment and other safety related costs of $0.6 million, utility costs of $0.5 million and repair and maintenance costs of $0.5 million. We currently anticipate that certain variable costs, such as those noted above, will decrease for the year ending December 31, 2020, compared to the year ended December 31, 2019, partially due to an increase in the average length of guest stays and a continued shift toward less expensive reservation channels. We expect other variable costs, such as costs incurred for personal protective equipment and related safety measures taken in response to the COVID-19 pandemic, as well as certain fixed operating expenses, such as property insurance, to increase. The potential impact of changes in hotel operating expenses related to the COVID-19 pandemic is highly uncertain.

General and administrative expenses. General and administrative expenses increased by $0.9 million, or 4.0%, to $23.2 million for the three months ended September 30, 2020, compared to $22.3 million for the three months ended September 30, 2019, primarily due to employee separation costs. Excluding severance costs, we expect general and administrative expenses to remain relatively flat for the year ending December 31, 2020, compared to the year ended December 31, 2019.

Depreciation and amortization. Depreciation and amortization increased by $2.5 million, or 5.1%, to $52.3 million for the three months ended September 30, 2020, compared to $49.7 million for the three months ended September 30, 2019, due to a hotel acquisition and new hotel openings that occurred during the fourth quarter of 2019 and the nine months ended September 30, 2020.

Impairment of long-lived assets. During the three months ended September 30, 2020, we recognized an impairment charge of $0.4 million related to one hotel located in Illinois. During the three months ended September 30, 2019, we recognized an impairment charge of $2.7 million related to one hotel located in New York. These charges were the result of a decline in the respective hotel's estimated future operating cash flows.

Other expenses from franchised and managed properties. Other expenses from franchised and managed properties decreased by $0.3 million, or 7.4%, to $4.4 million for the three months ended September 30, 2020, compared to $4.7 million for the three months ended September 30, 2019, due to a decrease in direct costs resulting from the termination of two management agreements in the third quarter of 2019. We generally expect the cost to provide certain shared system-wide platforms to franchisees to be recovered through system service fees, which are included in other revenues from franchised and managed properties.

Other non-operating income. During the three months ended September 30, 2020 and 2019, we recognized a foreign currency transaction gain of $0.2 million and loss of $0.1 million, respectively, related to a residual Canadian dollar-denominated deposit as a result of the prior sale of Canadian hotels.

Interest expense, net. During the three months ended September 30, 2019, the Company incurred debt extinguishment and modification costs of $6.7 million, consisting of the write-off of unamortized deferred financing costs and debt discount of $5.6 million and other costs of $1.1 million, which related to the $500.0 million repayment of outstanding borrowings under the ESH REIT Term Facility and the modification of the ESH REIT Credit Facilities. Excluding debt extinguishment and modification costs, net interest expense increased by $2.5 million, or 8.2%, to $32.3 million for the three months ended September 30, 2020, compared to $29.8 million for the three months ended September 30, 2019. In March 2020, the Company borrowed $399.8 million under revolving credit facilities and in September 2019, ESH REIT issued $750.0 million of its 2027 Notes and repaid $500.0 million of the ESH REIT Term Facility. The Company’s weighted-average interest rate decreased to 4.4% as of September 30, 2020 compared to 4.7% as of September 30, 2019, due to a decline in LIBOR. The Company's total debt outstanding as of September 30, 2020 and 2019 was $2.7 billion and $2.6 billion, net of unamortized deferred financing costs and debt discounts, respectively. Interest expense, net is expected to increase for the year ending December 31, 2020, due to the increase in total debt outstanding.

Income tax (benefit) expense. We recorded a benefit for federal, state, and foreign income taxes of $7.1 million, an effective tax rate of (29.3)%, for the three months ended September 30, 2020, compared to a provision of $10.5 million, an effective tax rate of 16.5%, for the three months ended September 30, 2019. The Company’s effective rate differs from the federal statutory rate of 21% primarily due to ESH REIT’s status as a REIT under the provisions of the Internal Revenue Code and, for the three months ended September 30, 2020, the passage of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides the Company the ability to carry back and utilize the Corporation's projected federal tax losses to higher tax rate years.

Comparison of Nine Months Ended September 30, 2020 and September 30, 2019

The following table presents the Company's consolidated results of operations for the nine months ended September 30, 2020 and 2019, including the amount and percentage change in these results between the periods (in thousands):

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Change ($)	Change (%)
Revenues:				
Room revenues	$ 747,371	$ 899,329	$ (151,958)	(16.9)%
Other hotel revenues	20,640	17,848	2,792	15.6%
Franchise and management fees	3,940	4,023	(83)	(2.1)%
	771,951	921,200	(149,249)	(16.2)%
Other revenues from franchised and managed properties	11,072	12,821	(1,749)	(13.6)%
Total revenues	783,023	934,021	(150,998)	(16.2)%
Operating Expenses:				
Hotel operating expenses	427,886	437,111	(9,225)	(2.1)%
General and administrative expenses	70,234	67,606	2,628	3.9%
Depreciation and amortization	153,848	147,543	6,305	4.3%
Impairment of long-lived assets	1,095	2,679	(1,584)	(59.1)%
	653,063	654,939	(1,876)	(0.3)%
Other expenses from franchised and managed properties	12,643	14,342	(1,699)	(11.8)%
Total operating expenses	665,706	669,281	(3,575)	(0.5)%
Other income	4	31	(27)	(87.1)%
Income from operations	117,321	264,771	(147,450)	(55.7)%
Other non-operating expense (income)	246	(248)	494	(199.2)%
Interest expense, net	98,582	95,905	2,677	2.8%
Income before income tax (benefit) expense	18,493	169,114	(150,621)	(89.1)%
Income tax (benefit) expense	(12,074)	27,822	(39,896)	(143.4)%
Net income	30,567	141,292	(110,725)	(78.4)%
Net income attributable to noncontrolling interests[(1)]	(14,156)	(24,790)	10,634	(42.9)%
Net income attributable to Extended Stay America, Inc. common shareholders	$ 16,411	$ 116,502	$ (100,091)	(85.9)%

(1) Noncontrolling interests in Extended Stay America, Inc. include 41% and 42% of ESH REIT's common equity as of September 30, 2020 and 2019, respectively, and 125 shares of ESH REIT preferred stock.

The following table presents key operating metrics, including occupancy, ADR, RevPAR and hotel inventory for the Company's owned hotels for the nine months ended September 30, 2020 and 2019, respectively:

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Change
Number of hotels (as of September 30)	562	554	8
Number of rooms (as of September 30)	62,545	61,552	993
Occupancy	73.2%	77.4%	(420) bps
ADR	$60.08	$69.15	(13.1)%
RevPAR	$43.95	$53.53	(17.9)%

Room revenues. Room revenues decreased by $152.0 million, or 16.9%, to $747.4 million for the nine months ended September 30, 2020, compared to $899.3 million for the nine months ended September 30, 2019, due to a 17.9% decrease in RevPAR as a result of a 13.1% decrease in ADR and a 420 basis point decline in occupancy due to material business disruption as a result of the COVID-19 pandemic. We anticipate that continued disruption resulting from the COVID-19 pandemic, as well as potential changes in customer behavior, will result in a material adverse decrease in room revenues for the year ending

December 31, 2020, compared with the year ended December 31, 2019. The length and severity of such impact is highly uncertain.

Other hotel revenues. Other hotel revenues increased by $2.8 million, or 15.6%, to $20.6 million for the nine months ended September 30, 2020, compared to $17.8 million for the nine months ended September 30, 2019, due to system and process improvements that improved billing efficiency as well as reimbursements received from certain third-party intermediaries of $2.0 million and increases in laundry revenue and internet access revenue that totaled $0.8 million.

Franchise and management fees. Franchise and management fees decreased by $0.1 million, or 2.1%, to $3.9 million for the nine months ended September 30, 2020, compared to $4.0 million for the nine months ended September 30, 2019. We expect franchise and management fees to increase over time if additional franchised hotels open in the future.

Other revenues from franchised and managed properties. Other revenues from franchised and managed properties decreased by $1.7 million, or 13.6%, to $11.1 million for the nine months ended September 30, 2020, compared to $12.8 million for the nine months ended September 30, 2019, due to a decrease in direct reimbursable costs resulting from the termination of two management agreements in the third quarter of 2019.

Hotel operating expenses. Hotel operating expenses decreased by $9.2 million, or 2.1%, to $427.9 million for the nine months ended September 30, 2020, compared to $437.1 million for the nine months ended September 30, 2019. The decrease in hotel operating expenses was primarily due to declines in certain variable costs, including reservation costs of $11.6 million, credit card fees of $5.8 million, $4.5 million in costs related to the temporary suspension of our grab-and-go breakfast and marketing costs of $3.3 million. These decreases were partially offset by increases in allowance for uncollectible guest balances of $6.2 million, property insurance of $2.4 million, personal protective equipment and related safety costs of $1.8 million, hotel-level payroll expense of $1.5 million, repairs and maintenance costs of $1.5 million, loss on disposal of assets of $1.3 million and real estate tax expense of $1.2 million. We currently anticipate that certain variable costs, such as those noted above, will decrease for the year ending December 31, 2020, compared to the year ended December 31, 2019, partially due to an increase in the average length of guest stays and a continued shift to less expensive reservation channels. We expect other variable costs, such as costs incurred for personal protective equipment and related safety measures taken in response to the COVID-19 pandemic, as well as certain fixed operating expenses, such as property insurance, to increase. The potential impact of changes in hotel operating expenses related to the COVID-19 pandemic is highly uncertain.

General and administrative expenses. General and administrative expenses increased by $2.6 million, or 3.9%, to $70.2 million for the nine months ended September 30, 2020, compared to $67.6 million for the nine months ended September 30, 2019, due to employee separation costs, partially offset by declines in travel expenses. Excluding severance costs, we expect general and administrative expenses to remain relatively flat for the year ending December 31, 2020, compared to the year ended December 31, 2019.

Depreciation and amortization. Depreciation and amortization increased by $6.3 million, or 4.3%, to $153.8 million for the nine months ended September 30, 2020, compared to $147.5 million for the nine months ended September 30, 2019, due to a hotel acquisition and new hotel openings that occurred during the fourth quarter of 2019 and the nine months ended September 30, 2020.

Impairment of long-lived assets. During the nine months ended September 30, 2020, we recognized impairment charges of $1.1 million related to an undeveloped land parcel and one hotel located in Illinois. During the nine months ended September 30, 2019, the Company recognized an impairment charge of $2.7 million related to one hotel location in New York. The hotel-related impairment charges were incurred as a result of a decline in the respective hotel's estimated future operating cash flows.

Other expenses from franchised and managed properties. Other expenses from franchised and managed properties decreased by $1.7 million, or 11.8%, to $12.6 million for the nine months ended September 30, 2020, compared to $14.3 million for the nine months ended September 30, 2019, due to a decrease in direct costs resulting from the termination of two management agreements in the third quarter of 2019. We generally expect the cost to provide certain shared system-wide platforms to franchisees to be recovered through system service fees, which are included in other revenues from franchised and managed properties.

Other non-operating expense (income). During the nine months ended September 30, 2020 and 2019, we recognized a foreign currency transaction loss of $0.2 million and gain of $0.2 million, respectively, related to a residual Canadian dollar-denominated deposit as a result of the prior sale of Canadian hotels.

Interest expense, net. During the nine months ended September 30, 2019, the Company incurred debt extinguishment and modification costs of $6.7 million, consisting of the write-off of unamortized deferred financing costs and debt discount of $5.6 million and other costs of $1.1 million, which related to the $500.0 million repayment of outstanding borrowings under the ESH REIT Term Facility and the modification of the ESH REIT Credit Facilities. Excluding debt extinguishment and modification costs, net interest expense increased by $9.4 million, or 10.5%, to $98.6 million for the nine months ended September 30, 2020, compared to $89.2 million for the nine months ended September 30, 2019. In March 2020, the Company borrowed $399.8 million under revolving credit facilities and in September 2019, ESH REIT issued $750.0 million of its 2027 Notes and repaid $500.0 million of the ESH REIT Term Facility. The Company's weighted-average interest rate decreased to 4.4% as of September 30, 2020, compared to 4.7% as of September 30, 2019, due to a decline in LIBOR. The Company's total debt outstanding as of September 30, 2020 and 2019 was $2.7 billion and $2.6 billion, net of unamortized deferred financing costs and debt discounts, respectively. Interest expense, net is expected to increase for the year ending December 31, 2020, due to the increase in total debt outstanding.

Income tax (benefit) expense. We recorded a benefit for federal, state, and foreign income taxes of $12.1 million, an effective tax rate of (65.3)%, for the nine months ended September 30, 2020, compared to a provision of $27.8 million, an effective tax rate of 16.5%, for the nine months ended September 30, 2019. The Company's effective rate differs from the federal statutory rate of 21% primarily due to ESH REIT's status as a REIT under the provisions of the Internal Revenue Code and, for the nine months ended September 30, 2020, the passage of the CARES Act, which provides the Company the ability to carry back and utilize the Corporation's projected federal tax losses to higher tax rate years.

Results of Operations—ESH REIT

As of September 30, 2020, ESH REIT owned and leased 562 hotels, consisting of approximately 62,500 rooms. As of September 30, 2019, ESH REIT owned and leased 554 hotels, consisting of approximately 61,500 rooms.

Comparison of Three Months Ended September 30, 2020 and September 30, 2019

The following table presents ESH REIT's results of operations for the three months ended September 30, 2020 and 2019, including the amount and percentage change in these results between the periods (in thousands):

	Three Months Ended September 30,			
	2020	**2019**	**Change ($)**	**Change (%)**
Revenues- Rental revenues from Extended Stay America, Inc.	$ 126,469	$ 139,455	$ (12,986)	(9.3)%
Operating expenses:				
Hotel operating expenses	22,236	21,577	659	3.1%
General and administrative expenses	3,648	3,477	171	4.9%
Depreciation and amortization	51,355	48,885	2,470	5.1%
Total operating expenses	77,239	73,939	3,300	4.5%
Income from operations	49,230	65,516	(16,286)	(24.9)%
Other non-operating (income) expense	(136)	79	(215)	272.2%
Interest expense, net	31,829	36,882	(5,053)	(13.7)%
Income before income tax expense	17,537	28,555	(11,018)	(38.6)%
Income tax expense	10	88	(78)	(88.6)%
Net income	$ 17,527	$ 28,467	$ (10,940)	(38.4)%

Rental revenues from Extended Stay America, Inc. Rental revenues decreased by $13.0 million, or 9.3%, to $126.5 million for the three months ended September 30, 2020, compared to $139.5 million for the three months ended September 30, 2019. The decrease in rental revenues was due to a decrease in variable rental revenues as a result of a decline in Operating Lessee hotel revenues, partially offset by an increase in fixed rental revenues due to rent income related to a hotel acquisition and newly opened hotels during the fourth quarter of 2019 and the nine months ended September 30, 2020. Variable rental revenues of $6.2 million and $21.5 million were recognized during the three months ended September 30, 2020 and September 30, 2019, respectively. Variable rental revenues are expected to materially decrease for the year ended December 31, 2020, as a result of a decline in Operating Lessee hotel revenues expected due to business disruption and changes in customer behavior resulting from the COVID-19 pandemic.

Hotel operating expenses. Hotel operating expenses increased by $0.7 million, or 3.1%, to $22.2 million for the three months ended September 30, 2020, compared to $21.6 million for the three months ended September 30, 2019. This increase was primarily due to increases property insurance and related costs of $1.2 million, partially offset by decreases in loss on disposal of assets of $0.3 million and real estate taxes of $0.2 million.

General and administrative expenses. General and administrative expenses increased by $0.2 million, or 4.9%, to $3.6 million for the three months ended September 30, 2020, compared to $3.5 million for the three months ended September 30, 2019, due to an increase in reimbursable costs paid to the Corporation.

Depreciation and amortization. Depreciation and amortization increased by $2.5 million, or 5.1%, to $51.4 million for the three months ended September 30, 2020, compared to $48.9 million for the three months ended September 30, 2019, due to a hotel acquisition and newly opened hotels during the fourth quarter of 2019 and the nine months ended September 30, 2020.

Other non-operating (income) expense. During the three months ended September 30, 2020 and 2019, ESH REIT recognized a foreign currency transaction gain of $0.1 million and loss of $0.1 million, respectively, related to a residual Canadian dollar-denominated deposit as a result of the prior sale of Canadian hotels.

Interest expense, net. During the three months ended September 30, 2019, ESH REIT incurred debt extinguishment and modification costs of $6.7 million, consisting of the write-off of unamortized deferred financing costs and debt discount of $5.6 million and other costs of $1.1 million, which related to the $500.0 million repayment of outstanding borrowings under the ESH REIT Term Facility and the modification of the ESH REIT Credit Facilities. Excluding debt extinguishment and modification costs, net interest expense increased by $1.6 million, or 5.5%, to $31.8 million for the three months ended September 30, 2020, compared to $30.2 million for the three months ended September 30, 2019. In March 2020, ESH REIT borrowed $350.0 million under its revolving credit facility and in September 2019, ESH REIT issued $750.0 million of its 2027 Notes and repaid $500.0 million of the ESH REIT Term Facility. ESH REIT's weighted-average interest rate decreased to 4.4% as of September 30, 2020, compared to 4.7% as of September 30, 2019, due to a decline in LIBOR. ESH REIT's total debt outstanding as of September 30, 2020 and 2019 was $2.6 billion, net of unamortized deferred financing costs and debt discounts.

Income tax expense. ESH REIT's effective income tax rate decreased to 0.1% for the three months ended September 30, 2020 compared to 0.3% for the three months ended September 30, 2019. ESH REIT's effective rate differs from the federal statutory rate of 21% primarily due to its status as a REIT under the provisions of the Code.

Comparison of Nine Months Ended September 30, 2020 and September 30, 2019

The following table presents ESH REIT's results of operations for the nine months ended September 30, 2020 and 2019, including the amount and percentage change in these results between the periods (in thousands):

	Nine Months Ended September 30,			
	2020	**2019**	**Change ($)**	**Change (%)**
Revenues- Rental revenues from Extended Stay America, Inc.	$ 365,145	$ 375,562	$ (10,417)	(2.8)%
Operating expenses:				
Hotel operating expenses	70,052	64,822	5,230	8.1%
General and administrative expenses	11,584	11,002	582	5.3%
Depreciation and amortization	151,070	144,884	6,186	4.3%
Impairment of long-lived assets	675	—	675	n/a
Total operating expenses	233,381	220,708	12,673	5.7%
Other income	—	15	(15)	(100.0)%
Income from operations	131,764	154,869	(23,105)	(14.9)%
Other non-operating expense (income)	179	(194)	373	192.3%
Interest expense, net	97,454	97,083	371	0.4%
Income before income tax expense	34,131	57,980	(23,849)	(41.1)%
Income tax expense	21	98	(77)	(78.6)%
Net income	$ 34,110	$ 57,882	$ (23,772)	(41.1)%

Rental revenues from Extended Stay America, Inc. Rental revenues decreased by $10.4 million, or 2.8%, to $365.1 million for the nine months ended September 30, 2020, compared to $375.6 million for the nine months ended September 30, 2019. The decrease in rental revenues was due to a decrease in variable rental revenues as a result of a decline in Operating Lessee hotel revenues, partially offset by an increase in fixed rental revenues due to rent income related to a hotel acquisition and newly opened hotels during the fourth quarter of 2019 and the nine months ended September 30, 2020. Variable rental revenues of $6.2 million and $21.5 million were recognized during the nine months ended September 30, 2020 and September 30, 2019, respectively. Variable rental revenues are expected to materially decrease for the year ending December 31, 2020, as a result of a decline in Operating Lessee hotel revenues expected due to business disruption and changes in customer behavior resulting from the COVID-19 pandemic.

Hotel operating expenses. Hotel operating expenses increased by $5.2 million, or 8.1%, to $70.1 million for the nine months ended September 30, 2020, compared to $64.8 million for the nine months ended September 30, 2019. This increase was due to increases in property insurance and related costs of $2.8 million, loss on disposal of assets of $1.3 million and real estate tax expense of $1.2 million.

General and administrative expenses. General and administrative expenses increased by $0.6 million, or 5.3%, to $11.6 million for the nine months ended September 30, 2020, compared to $11.0 million for the nine months ended September 30, 2019, due to an increase in reimbursable costs paid to the Corporation.

Depreciation and amortization. Depreciation and amortization increased by $6.2 million, or 4.3%, to $151.1 million for the nine months ended September 30, 2020, compared to $144.9 million for the nine months ended September 30, 2019, due to a hotel acquisition and newly opened hotels during the fourth quarter of 2019 and during the nine months ended September 30, 2020.

Impairment of long-lived assets. During the nine months ended September 30, 2020, ESH REIT recognized an impairment charge of $0.7 million related to an undeveloped land parcel. No impairment charges were recognized during the nine months ended September 30, 2019.

Other non-operating expense (income). During the nine months ended September 30, 2020 and 2019, ESH REIT recognized a foreign currency transaction loss of $0.2 million and gain of $0.2 million, respectively, related to a residual Canadian dollar-denominated deposit as a result of the prior sale of Canadian hotels.

Interest expense, net. During the nine months ended September 30, 2019, ESH REIT incurred debt extinguishment and modification costs of $6.7 million, consisting of the write-off of unamortized deferred financing costs and debt discount of $5.6 million and other costs of $1.1 million, which related to the $500.0 million repayment of outstanding borrowings under the ESH REIT Term Facility and the modification of the ESH REIT Credit Facilities. Excluding debt extinguishment and modification costs, net interest expense increased by $7.1 million, or 7.8%, to $97.5 million for the nine months ended September 30, 2020, compared to $90.4 million for the nine months ended September 30, 2019. In March 2020, ESH REIT borrowed $350.0 million under its revolving credit facility and in September 2019, ESH REIT issued $750.0 million of its 2027 Notes and repaid $500.0 million of the ESH REIT Term Facility. ESH REIT's weighted-average interest rate decreased to 4.4% as of September 30, 2020, compared to 4.7% as of September 30, 2019, due to a decline in LIBOR. ESH REIT's total debt outstanding as of September 30, 2020 and 2019 was $2.6 billion, net of unamortized deferred financing costs and debt discounts.

Income tax expense. ESH REIT's effective income tax rate decreased to 0.1% for the nine months ended September 30, 2020 compared to 0.2% for the nine months ended September 30, 2019. ESH REIT's effective rate differs from the federal statutory rate of 21% primarily due to its status as a REIT under the provisions of the Code.

Non-GAAP Financial Measures

Hotel Operating Profit and Hotel Operating Margin

Hotel Operating Profit and Hotel Operating Margin measure hotel-level operating results prior to certain items, including debt service, income tax expense, impairment charges, depreciation and amortization and general and administrative expenses. The Company believes that Hotel Operating Profit and Hotel Operating Margin are useful measures to investors regarding our operating performance as they help us evaluate aggregate owned hotel-level profitability, specifically owned hotel operating efficiency and effectiveness. Further, these measures allow us to analyze period over period operating margin flow-through, defined as the change in Hotel Operating Profit divided by the change in total room and other hotel revenues.

We define Hotel Operating Profit as net income excluding: (1) income tax (benefit) expense; (2) net interest expense; (3) other non-operating (income) expense; (4) other income; (5) gain on sale of hotel properties; (6) impairment of long-lived assets; (7) depreciation and amortization; (8) general and administrative expenses; (9) loss on disposal of assets; (10) franchise and management fees; and (11) other expenses from franchised and managed properties, net of other revenues. We define Hotel Operating Margin as Hotel Operating Profit divided by the sum of room and other hotel revenues. We believe that 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 consolidated Company only.

Hotel Operating Profit and Hotel Operating Margin 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 of the Company, the Corporation or ESH REIT, or any other measure of the Company, the Corporation or ESH REIT calculated in accordance with U.S. GAAP. Interest expense and other items have been and will continue to be incurred and are not reflected in Hotel Operating Profit or Hotel Operating Margin. Management separately considers the impact of these excluded items to the extent they are material to operating decisions and assessments of operating performance. The Company's condensed consolidated statements of operations include excluded items, each of which should be considered when evaluating our performance in addition to our non-GAAP financial measures. Hotel Operating Profit and Hotel Operating Margin should not solely be considered as measures of our profitability.

The following table provides a reconciliation of Hotel Operating Profit and Hotel Operating Margin for the Company for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	$ 31,492	$ 53,230	$ 30,567	$ 141,292
Income tax (benefit) expense	(7,132)	10,501	(12,074)	27,822
Interest expense, net	32,276	36,535	98,582	95,905
Other non-operating (income) expense	(155)	101	246	(248)
Other income	(1)	(3)	(4)	(31)
Impairment of long-lived assets	420	2,679	1,095	2,679
Depreciation and amortization	52,286	49,748	153,848	147,543
General and administrative expenses	23,193	22,292	70,234	67,606
Loss on disposal of assets [(1)]	1,330	1,660	6,309	5,037
Franchise and management fees	(1,443)	(1,351)	(3,940)	(4,023)
System services loss, net	516	499	1,571	1,521
Hotel Operating Profit	$ 132,782	$ 175,891	$ 346,434	$ 485,103
Room revenues	$ 273,056	$ 320,669	$ 747,371	$ 899,329
Other hotel revenues	7,552	6,475	20,640	17,848
Total room and other hotel revenues	$ 280,608	$ 327,144	$ 768,011	$ 917,177
Hotel Operating Margin	47.3 %	53.8 %	45.1 %	52.9 %

(1) Included in hotel operating expenses in the condensed consolidated statements of operations.

EBITDA and Adjusted EBITDA

EBITDA is defined as net income excluding: (1) net interest expense; (2) income tax (benefit) 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 and our franchise and management operations 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 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 ongoing operating performance and that the presentation of Adjusted EBITDA, when combined with the U.S. GAAP presentation of net income, net income per share and cash flow provided by operating activities, is beneficial to the overall understanding of ongoing operating performance. We adjust EBITDA for the following items where applicable for each period presented, and refer to this measure as Adjusted EBITDA:

- *Equity-based compensation*—We exclude charges related to equity-based compensation expense with respect to awards issued under long-term incentive compensation plans to employees and certain directors.
- *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.
- *System services (profit) loss, net*—We exclude direct and indirect reimbursable expenses from franchised and managed properties, net of other revenues, because although the timing of system service fee revenues will typically not align with expenses incurred to operate these programs, the Company manages system services to break even over time. This policy was implemented on January 1, 2020, due to the growth of our franchise business; no adjustments have been made to prior periods.
- *Other expenses*—We exclude the effect of other expenses or income that we do not consider reflective of ongoing or future operating performance, including the following: loss on disposal of assets, non-operating expense (income), including foreign currency transaction costs, and certain costs associated with acquisitions, dispositions and/or capital transactions.

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 of the Company, the Corporation or ESH REIT, or any other measure of the Company, the Corporation or ESH REIT calculated in accordance with U.S. GAAP. Cash expenditures for 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 separately considers the impact of these excluded items to the extent they are material to operating decisions and assessments of operating performance. The Company's 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. EBITDA and Adjusted EBITDA should not solely be considered as measures of our profitability or indicative of funds available to fund our cash needs, including our ability to pay shareholder distributions.

We believe that 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 consolidated 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, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	$ 31,492	$ 53,230	$ 30,567	$ 141,292
Interest expense, net	32,276	36,535	98,582	95,905
Income tax (benefit) expense	(7,132)	10,501	(12,074)	27,822
Depreciation and amortization	52,286	49,748	153,848	147,543
EBITDA	108,922	150,014	270,923	412,562
Equity-based compensation	1,656	1,876	4,646	6,131
Impairment of long-lived assets	420	2,679	1,095	2,679
System services loss, net (1)	516	—	1,571	—
Other expense (2)	1,175	1,756	6,555	4,907
Adjusted EBITDA	$ 112,689	$ 156,325	$ 284,790	$ 426,279

(1) In light of the growth of our franchise business and in order to enhance comparability, effective January 1, 2020, the Company adopted the practice of other lodging companies with franchise businesses of excluding system services (profit) loss, net from Adjusted EBITDA; no adjustments have been made to prior period results. System services loss, net, for the three and nine months ended September 30, 2019, was $0.5 million and $1.5 million, respectively.

(2) Includes loss on disposal of assets and non-operating (income) expense, including foreign currency transaction costs. Loss on disposal of assets totaled $1.3 million, $1.7 million, $6.3 million and $5.0 million, respectively.

FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share

FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share are metrics used by management to assess our operating performance and profitability and to facilitate comparisons between us and other hotel and/or real estate companies that include a REIT as part of their legal entity structure. Funds from Operations (“FFO”) is defined by the National Association of Real Estate Investment Trusts (“NAREIT”) as net income (computed in accordance with U.S. GAAP), excluding gains from sales of real estate, impairment charges, the cumulative effect of changes in accounting principle, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures following the same approach. FFO is a commonly used measure among other hotel and/or real estate companies that include a REIT as a part of their legal entity structure. Since real estate depreciation and amortization, impairment of long-lived assets and gains from sales of hotel properties are dependent upon the historical cost of the real estate asset bases and generally not reflective of ongoing operating performance or earnings capability, the Company believes FFO is useful to investors as it provides a meaningful comparison of our performance between periods and between us and other companies and/or REITs.

Consistent with our presentation of Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share, as described below, our reconciliation of FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share begins with net income attributable to Extended Stay America, Inc. common shareholders, which excludes net income attributable to noncontrolling interests, and adds back earnings attributable to ESH REIT’s Class B common shares, presented as noncontrolling interest of the Company as required by U.S. GAAP. We believe that including earnings attributable to ESH REIT’s Class B common shares in our calculations of FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share provides investors with useful supplemental measures of the Company’s operating performance since our Paired Shares, directly through the pairing of 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 to participate in 100% of the common equity and earnings of both the Corporation and ESH REIT. 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 transferable 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.

The Company uses Adjusted FFO and Adjusted FFO per diluted Paired Share 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 FFO and Adjusted FFO per diluted Paired Share, when combined with the U.S. GAAP presentation of net income and net income per common share, is beneficial to the overall understanding of our ongoing performance.

The Company adjusts FFO for the following items, net of tax, as applicable, that are not addressed in NAREIT's definition of FFO, and refers to this measure as Adjusted FFO:

- *Debt modification and extinguishment costs—*We exclude charges related to the write-off of unamortized deferred financing costs, prepayment penalties and other costs associated with the modification and/or extinguishment of debt as we believe they are not reflective of our ongoing or future operating performance.

Adjusted FFO per diluted Paired Share is defined as Adjusted FFO divided by the weighted average number of Paired Shares outstanding on a 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 FFO per diluted Paired Share is useful to investors, as it represents a measure of the economic risks and rewards related to an investment in our Paired Shares.

FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share as presented may not be comparable to similar measures calculated by other REITs or real estate companies that include a REIT as part of their legal entity structure. In particular, due to the fact that we present these measures for the Company on a consolidated basis (i.e., including the impact of franchise fees, management fees and income taxes), FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share, may be of limited use to investors comparing our results only to REITs. This information should not be considered as an alternative to net income of the Company, the Corporation, or 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 measure of the Company, the Corporation or ESH REIT calculated in accordance with U.S. GAAP. Real estate related depreciation and amortization expense will continue to be incurred and is not reflected in FFO, Adjusted FFO or Adjusted FFO per diluted Paired Share. Additionally, impairment charges, gains or losses on sales of hotel properties and other charges or income incurred in accordance with U.S. GAAP may occur and are not reflected in FFO, Adjusted FFO or Adjusted FFO per diluted Paired Share. Management separately considers the impact of these excluded items to the extent they are material to operating decisions and assessments of operating performance. The Company's consolidated statements of operations include these items, all of which should be considered when evaluating our performance, in addition to our non-GAAP financial measures.

We believe that FFO, Adjusted FFO and Adjusted FFO per diluted 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 consolidated Company only.

The following table provides a reconciliation of net income attributable to Extended Stay America, Inc. common shareholders to FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share for the Company for the three and nine months ended September 30, 2020 and 2019 (in thousands, except per Paired Share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income per Extended Stay America, Inc. common share - diluted	$ 0.14	$ 0.22	$ 0.09	$ 0.62
Net income attributable to Extended Stay America, Inc. common shareholders	$ 24,220	$ 41,071	$ 16,411	$ 116,502
Noncontrolling interests attributable to Class B common shares of ESH REIT	7,268	12,155	14,144	24,778
Real estate depreciation and amortization	50,667	48,247	148,977	143,335
Impairment of long-lived assets	420	2,679	1,095	2,679
Tax effect of adjustments to net income attributable to Extended Stay America, Inc. common shareholders(1)	(11,835)	(8,250)	(24,265)	(23,132)
FFO	70,740	95,902	156,362	264,162
Debt modification and extinguishment costs	—	6,716	—	6,716
Tax effect of adjustments to FFO	—	(1,088)	—	(1,088)
Adjusted FFO	$ 70,740	$ 101,530	$ 156,362	$ 269,790
Adjusted FFO per Paired Share - diluted	$ 0.40	$ 0.54	$ 0.88	$ 1.43
Weighted Average Paired Shares outstanding - diluted	178,198	187,015	178,071	188,317

(1) The tax effect of adjustments to net income attributable to Extended Stay America, Inc. common shareholders for the three months ended September 30, 2020, is computed using a statutory rate due to the fact that the consolidated effective tax rate for the period is negative.

Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share

We present Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share as supplemental measures of the Company’s performance. We believe that these are useful measures for investors since our Paired Shares, directly through the pairing of 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 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 Extended Stay America, Inc. 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 transferable 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 diluted Paired Share represent useful measures to holders of our Paired Shares.

Paired Share Income is defined as the sum of net income attributable to Extended Stay America, Inc. 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 ongoing or future operating performance. We adjust Paired Share Income for the following items, net of tax, as applicable, and refer to this measure as Adjusted Paired Share Income: debt modification and extinguishment costs, impairment of long-lived assets, gain on sale of hotel properties, system services (profit) loss, net and other expenses such as loss on disposal of assets, non-operating expense (income), including foreign currency transaction costs and certain costs associated with acquisitions, dispositions and/or capital transactions. With the exception of equity-based compensation, an ongoing charge, and debt modification and extinguishment costs, these adjustments (other than the effect of income taxes) are the same as those used in the reconciliation of net income calculated in accordance with U.S. GAAP to EBITDA and Adjusted EBITDA.

Adjusted Paired Share Income per diluted Paired Share is defined as Adjusted Paired Share Income divided by the number of Paired Shares outstanding on a 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 diluted Paired Share is useful to investors, as it represents one measure of 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 diluted 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 is impacted by specific U.S. GAAP requirements, including the recognition of contingent lease rental revenues and the recognition of fixed minimum lease rental revenues on a straight-line basis, and may not reflect how cash flows and/or earnings are generated on an individual entity or total enterprise basis. Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share should not be considered as an alternative to net income of the Company, the Corporation or 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 measure of the Company, the Corporation or ESH REIT calculated in accordance with U.S. GAAP.

We believe that Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted 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 consolidated Company only.

The following table provides a reconciliation of net income attributable to Extended Stay America, Inc. common shareholders to Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share for the three and nine months ended September 30, 2020 and 2019 (in thousands, except per Paired Share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income per Extended Stay America, Inc. common share - diluted	$ 0.14	$ 0.22	$ 0.09	$ 0.62
Net income attributable to Extended Stay America, Inc. common shareholders	$ 24,220	$ 41,071	$ 16,411	$ 116,502
Noncontrolling interests attributable to Class B common shares of ESH REIT	7,268	12,155	14,144	24,778
Paired Share Income	31,488	53,226	30,555	141,280
Debt modification and extinguishment costs	—	6,716	—	6,716
Impairment of long-lived assets	420	2,679	1,095	2,679
System services loss, net[(1)]	516	—	1,571	—
Other expense[(2)]	1,175	1,756	6,555	4,907
Tax effect of adjustments to Paired Share Income[(3)]	(489)	(1,806)	(1,209)	(2,299)
Adjusted Paired Share Income	$ 33,110	$ 62,571	$ 38,567	$ 153,283
Adjusted Paired Share Income per Paired Share – diluted	$ 0.19	$ 0.33	$ 0.22	$ 0.81
Weighted average Paired Shares outstanding – diluted	178,198	187,015	178,071	188,317

(1) In light of the growth of our franchise business and in order to enhance comparability, effective January 1, 2020, the Company adopted the practice of other lodging companies with franchise businesses of excluding system services (profit) loss, net from Adjusted Paired Share Income; no adjustments have been made to prior period results. System services loss, net, for the three and nine months ended September 30, 2019, was $0.5 million and $1.5 million, respectively.

(2) Includes loss on disposal of assets and non-operating (income) expense, including foreign currency transaction costs. Loss on disposal of assets totaled $1.3 million, $1.7 million, $6.3 million and $5.0 million, respectively.

(3) The tax effect of adjustments to Paired Share Income for the three months ended September 30, 2020, is computed using a statutory rate due to the fact that the consolidated effective tax rate for the period is negative.

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 as well as the execution of our strategic objectives with existing cash, cash flow generated from operations, borrowings under our revolving credit facilities, as needed, and, in certain instances, proceeds from asset dispositions. We generated cash flow from operations of $217.2 million and $338.8 million for the nine months ended September 30, 2020 and 2019, respectively. Similar to our decreases in RevPAR and Adjusted EBITDA, the decrease in our cash flow from operations was due to the effects of the COVID-19 pandemic. We expect cash flow from operations to materially decrease for the year ended December 31, 2020, compared with the year ended December 31, 2019, due to macroeconomic conditions related to the COVID-19 pandemic. Actual results are subject to a high degree of uncertainty due to the volatility of macroeconomic trends.

Current liquidity requirements consist primarily of funds necessary to pay for (i) hotel operating expenses, (ii) capital expenditures, including capital expenditures incurred to complete the construction of new hotels and select ongoing hotel renovations, (iii) investments in franchise, management and other fee-based programs, (iv) general and administrative expenses, (v) debt service obligations, including interest expense, (vi) income taxes, (vii) Corporation and required ESH REIT distributions and (viii) certain other growth and strategic initiatives (see "—Overview"). We expect to fund our current liquidity requirements from a combination of cash on hand, cash flow generated from operations and, in certain instances, proceeds from asset dispositions. We may also fund a portion of our current liquidity requirements with the borrowings under our revolving credit facilities.

In response to the current macroeconomic environment, we may choose to delay the execution of certain of our business strategies and reduce operating costs and certain capital expenditures in order to preserve liquidity. In March 2020, the Company drew the $399.8 million available borrowing capacity under its revolving credit facilities as a precautionary measure in order to increase its cash position and preserve financial flexibility in light of current uncertainty in the global markets resulting from the COVID-19 pandemic. In August 2020, ESH REIT repaid the full outstanding balance under its facility and had $350 million of available borrowing capacity. As of September 30, 2020, the Corporation had borrowed $49.8 million on its revolving credit facilities and had no remaining available borrowing capacity. See "Item 1A. Risk Factors - The continuing crisis resulting from the spread of COVID-19 could negatively impact our current liquidity position, limit or restrict our ability to access new sources of capital and our ability to maintain compliance with the financial covenants and other terms of the agreements governing our existing indebtedness."

Long-term liquidity requirements consist of funds necessary to (i) make future hotel renovations (ii) acquire additional hotel properties and/or other companies, (iii) repurpose or rebuild certain existing hotels (iv) execute our other growth and strategic initiatives, (v) pay Corporation and required ESH REIT distributions, (vi) repay and/or refinance outstanding amounts under our existing debt obligations, including the Corporation Revolving Credit Facility due in September 2024, the 2025 Notes due in May 2025, the ESH REIT Term Facility due in September 2026 and the 2027 Notes due in October 2027. See Note 7 to each of the condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q, for additional detail related to our debt obligations.

With respect to our long-term liquidity requirements, specifically our ability to refinance our existing outstanding debt obligations, we cannot assure you that the Corporation and/or ESH REIT will be able to refinance any debt on attractive terms at or before maturity, on commercially reasonable terms or at all, or the timing of any such refinancing. We expect to meet our long-term liquidity requirements through various sources of capital, including future debt financings or equity issuances by the Corporation and/or ESH REIT, existing working capital, cash flow generated from operations and, in certain instances, proceeds from asset dispositions. 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 capital and credit markets generally and as a result of the COVID-19 pandemic, our degree of leverage, which increased during the nine months ended September 30, 2020 with the drawdown of approximately $50 million of borrowing capacity under the Corporation's Revolving Credit Facility, the value of our unencumbered assets, 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 strategies 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.

Business Environment. The COVID-19 pandemic has had, and is expected to continue to have, a material adverse effect on the Company's cash flows from operations. Despite this impact, the Company continues to generate positive cash flow from operations, net of interest and capital expenditures. We believe there are opportunities in the current environment to serve additional extended stay guests, including new demand from temporary medical staff and student housing, as well as certain business travelers whose travel requirements have not been impacted by the pandemic. However, it is difficult to predict when pre-pandemic demand and pricing for our hotels will resume, if at all, as the number of cases in the U.S. has increased recently and future conditions remain uncertain. See "Part I. Item 1A. Risk Factors" in the 2019 Form 10-K, as well as "Item 1A. Risk Factors" below.

Cash Balances. The Company had unrestricted cash and cash equivalents of $381.5 million and $346.8 million at September 30, 2020 and December 31, 2019, respectively. Based upon the current level of operations, management believes that our cash flow from operations, together with our cash balances, including the $49.8 million of borrowings under the Corporation's Revolving Credit Facility, is expected to be adequate to meet the Company's anticipated funding requirements and business objectives for the foreseeable future. However, the length and severity of the COVID-19 pandemic and its economic impact continues to be highly uncertain and the potential future worsening of macroeconomic conditions could require the Company to reassess its liquidity position and take additional measures of liquidity preservation to ensure it can satisfy financial obligations as they come due.

Debt Obligations. The Company's continued compliance with financial covenants under its debt obligations could be impacted by current or future economic conditions associated with the pandemic. We may not be able to maintain compliance with our debt covenants or pay debt obligations as they become due and could risk default under the agreements governing the Company's indebtedness, upon which the amount outstanding could be accelerated, and may raise substantial doubt about our ability to continue as a going concern.

In May 2020, the Company entered into an amendment to the Corporation Revolving Credit Facility whereby it obtained a suspension of the quarterly tested leverage covenant from the beginning of the second quarter of 2020 through the end of the first quarter of 2021 (the "Four Quarter Suspension Period"). For the second quarter of 2021 through the fourth quarter of 2021, the leverage covenant calculation was modified to use annualized EBITDA as opposed to trailing twelve-month EBITDA. Throughout the Four Quarter Suspension Period, the Company has agreed to maintain minimum liquidity of $150.0 million and to limit share repurchases and dividend payments made by the Corporation. Additionally, the amendment provides for the Corporation to borrow up to $150.0 million from ESH REIT through an intercompany loan facility.

During the three months ended September 30, 2020, ESH REIT repaid the full outstanding balance under its revolving credit facility. As of September 30, 2020, the outstanding balance under the ESH REIT Revolving Credit Facility was $0 and the outstanding balance under the Corporation Revolving Credit Facility was $49.8 million. The Company's total available borrowing capacity under its revolving credit facilities is $350.0 million.

See Note 7 to each of the condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q, for additional detail related to our debt obligations and related covenants and "Item 1A. Risk Factors - The continuing crisis resulting from the spread of COVID-19 could negatively impact our current liquidity position, limit or restrict our ability to access new sources of capital and our ability to maintain compliance with the financial covenants and other terms of the agreements governing our existing indebtedness."

Paired Share Repurchase Program. In December 2015, the Boards of Directors of the Corporation and ESH REIT authorized a combined Paired Share repurchase program. As a result of several increases in authorized amounts and program extensions, the combined Paired Share repurchase program currently authorizes the Corporation and ESH REIT to purchase up to $550 million in Paired Shares through December 31, 2020. Repurchases may be made at management's discretion from time to time in the open market, in privately negotiated transactions or by other means (including through Rule 10b5-1 trading plans). As of September 30, 2020, the Corporation and ESH REIT had repurchased and retired 28.6 million Paired Shares for $283.0 million and $166.4 million, including transaction fees, respectively, and $101.1 million remained available under the combined Paired Share repurchase program. While the Company may continue to repurchase Paired Shares at management's discretion, we do not expect to repurchase Paired Shares for the remainder of 2020.

Distributions. On November 9, 2020, the Board of Directors of the Corporation declared a cash distribution of $0.01 per share for the third quarter of 2020 on its common stock. This distribution is payable on December 8, 2020 to shareholders of record as of November 24, 2020.

The following table outlines distributions declared or paid to date in 2020:

Declaration Date	Record Date	Date Paid/Payable	ESH REIT Distribution	Corporation Distribution	Total Distribution
2/26/2020	3/12/2020	3/26/2020	$0.14	$0.09	$0.23
5/6/2020	5/21/2020	6/4/2020	$0.01	$—	$0.01
8/10/2020	8/25/2020	9/8/2020	$0.01	$—	$0.01
11/9/2020	11/24/2020	12/8/2020	$—	$0.01	$0.01

For the year ending December 31, 2020, to the extent ESH REIT has not distributed the amount of estimated taxable income required for it to maintain its REIT status, a catch-up distribution may be made during the first quarter of 2021.

The Corporation

The Corporation's primary source of liquidity is distribution income it receives in respect of its ownership of 100% of the Class A common stock of ESH REIT, which as of September 30, 2020, represents 59% of the outstanding common stock of ESH REIT. Distribution income from ESH REIT declined significantly during the second and third quarters of 2020 as a result of the business impact of the COVID-19 pandemic. Distributions are subject to a high degree of uncertainty due to the volatility of macroeconomic trends, including the evolving nature of the pandemic. Other sources of liquidity include income from the operations of the Operating Lessees, ESA Management, ESH Strategies and ESH Strategies Franchise. In March 2020, in response to the COVID-19 pandemic and the resulting macroeconomic volatility and economic impact, the Corporation fully drew the available capacity under the Corporation Revolving Credit Facility and borrowed $49.8 million to preserve flexibility and its current and long-term liquidity. As of September 30, 2020, this balance remains outstanding and the Corporation has no available borrowing capacity under this facility.

The Corporation's current liquidity requirements consist primarily of funds necessary to pay for or fund (i) hotel operating expenses, (ii) general and administrative expenses, (iii) debt service obligations, (iv) income taxes, (v) investments in its franchise, management and other fee programs and (vi) Corporation distributions. The Corporation expects to fund its current liquidity requirements from a combination of cash on hand, including funds borrowed under the Corporation Revolving Credit Facility or borrowings from ESH REIT, as lender, under the Corporation Intercompany Facility (defined below), as well as cash flow generated from operations including distribution income it receives in respect of its ownership of 100% of the Class A common stock of ESH REIT.

The Corporation's long-term liquidity requirements include the repayment of outstanding amounts under the Corporation Revolving Credit Facility, and the repayment of outstanding amounts, if any, under the Corporation Intercompany Facility. See Note 7 to the condensed consolidated financial statements of Extended Stay America, Inc., included in Item 1 of this combined quarterly report on Form 10-Q, for additional detail on the Corporation's debt obligations.

The Corporation may continue to pay distributions on its common stock to meet a portion of our Paired Share distributions. The Corporation's ability to pay distributions on its common stock is dependent upon a number of factors, including but not limited to, its results of operations, net income, liquidity, cash flows, financial condition or prospects, economic conditions, all of which have been negatively impacted as a result of the COVID-19 pandemic, as well the ability to effectively execute certain tax planning strategies, compliance with applicable law, the receipt of distributions from ESH REIT in respect of the Class A common stock, level of indebtedness, capital requirements, contractual restrictions, restrictions in any existing and future debt agreements of the Corporation and ESH REIT and other factors. The payment of future distributions is at the discretion of the Corporation's Board of Directors. In light of these factors, the Corporation will continue to approach its future capital allocation, including returning capital to its investors through dividends, share repurchases and debt retirement, with the goal of balancing the need to preserve cash and maintain liquidity.

In July 2020, the Corporation, as borrower, and ESH REIT, as lender, entered into an unsecured credit facility (the "Corporation Intercompany Facility"). Under the Corporation Intercompany Facility, the Corporation may borrow up to $150.0 million from ESH REIT. Loans under the facility bear interest at an annual rate of 4.5%. In addition to paying interest on outstanding principal, the Corporation is required to pay a commitment fee to ESH REIT of 0.25% on the unutilized facility balance. There is no scheduled amortization under the facility and the facility matures on July 2, 2025. Obligations under the Corporation Intercompany Facility and guarantees thereof are unsecured and fully subordinated to the obligations of the

Corporation under the Corporation Revolving Credit Facility. The Corporation has the option to prepay outstanding balances under the facility without penalty. As of September 30, 2020, the outstanding balance under the facility was $0.

ESH REIT may return additional cash to the Corporation for the Corporation to fund its current and long-term liquidity requirements or for other corporate purposes. ESH REIT may transfer cash to the Corporation through the redemption of shares of Class A common stock, which would decrease the Corporation's ownership of ESH REIT. Such redemption would likely be inefficient from a tax perspective because the redemption would be taxed as an ordinary dividend. Additionally, ESH REIT may loan funds to the Corporation under the Corporation Intercompany Facility, subject to the conditions contained in the Corporation Revolving Credit Facility and other existing debt agreements.

Based upon the current level of operations, management believes that the Corporation’s cash position and cash flow generated from operations will be adequate to meet all 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 leases. The leases expire in October 2023, and at such time, we expect minimum and percentage rents to be adjusted to reflect then-current market terms. Percentage rents are expected to materially decrease for the year ending December 31, 2020, compared with the year ended December 31, 2019, as a result of a decline in Operating Lessee hotel revenues expected due to macroeconomic conditions related to the COVID-19 pandemic and may continue to decline in future periods. Current and future results are subject to a high degree of uncertainty due to the volatility of macroeconomic trends. In March 2020, as a precautionary measure in order to increase its cash position and preserve financial flexibility, ESH REIT fully drew the available capacity of $350.0 million under the ESH REIT Revolving Credit Facility. In August 2020, ESH REIT repaid the full balance under the facility. As of September 30, 2020, the outstanding balance under the ESH REIT Revolving Credit Facility was $0 and available borrowing capacity was $350.0 million.

ESH REIT’s current liquidity requirements include funds necessary to pay (i) costs associated with ownership of hotel properties, (ii) debt service obligations, including interest expense, and with respect to the ESH REIT Term Facility, scheduled principal payments on outstanding borrowings, (iii) real estate tax expense, (iv) property insurance expense, (v) general and administrative expense, including administrative service costs reimbursed to the Corporation, (vi) capital expenditures, including those capital expenditures incurred to complete current hotel renovations, complete the construction of new hotels and acquire additional hotel properties and/or other lodging companies, (vii) draws made by the Corporation on the Corporation Intercompany Facility and (viii) the payment of required REIT distributions.

ESH REIT’s long-term liquidity requirements consist of funds necessary to (i) complete future hotel renovations, (ii) repurpose and/or rebuild certain of ESH REIT’s existing hotel properties, (iii) acquire additional hotel properties and/or other lodging companies, (iv) pay required REIT distributions, (v) fund draws made by the Corporation on the Corporation Intercompany Facility, (vi) repay outstanding amounts under the ESH REIT Revolving Credit Facility and (vii) refinance (including prior to or in connection with debt maturity payments) the 2025 Notes, the ESH REIT Term Facility and the 2027 Notes maturing in May 2025, September 2026 and October 2027, respectively. See Note 7 to the condensed consolidated financial statements of ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q, for additional detail on ESH REIT’s debt obligations.

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 gain; 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.

ESH REIT intends to distribute its taxable income to the extent necessary to optimize its tax efficiency including, but not limited to, maintaining its REIT status, while retaining sufficient capital for its ongoing needs. 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. To the extent distributions in respect of the Class B common stock of ESH REIT are not sufficient to meet our expected Paired Share distributions, Paired Share distributions may be completed through distributions in respect of the common stock of the Corporation, as they have been in certain prior periods, using funds distributed to the Corporation in respect of the Class A common stock of ESH REIT, after allowance for tax, if any, on those funds.

ESH REIT will continue to approach its future capital allocation, including returning capital to its shareholders (including the Corporation) through dividends, share repurchases and debt retirement, with the goal of balancing the need to preserve cash, maintain liquidity as well as compliance with REIT distribution rules.

We expect that ESH REIT will need to refinance all or a portion of its outstanding debt, including the 2025 Notes, the ESH REIT Credit Facilities and the 2027 Notes, on or before maturity. See Note 7 to the condensed consolidated financial statements of ESH Hospitality, Inc., included in Item 1 of this quarterly report on Form 10-Q, for additional detail on ESH REIT's debt obligations. We cannot assure you that ESH REIT will be able to refinance any of its debt on attractive terms at or before maturity, on commercially reasonable terms or at all.

In August 2016, ESH REIT, as borrower, and the Corporation, as lender, entered into an unsecured intercompany credit facility (the "ESH REIT Intercompany Facility"). Under the ESH REIT Intercompany Facility, ESH REIT may borrow up to $300.0 million, plus additional amounts, in each case subject to certain conditions. There is no scheduled amortization under the facility and the facility matures in September 2026. As of September 30, 2020, the outstanding balance under the ESH REIT Intercompany Facility was $0.

The Corporation may return additional cash to ESH REIT in order for ESH REIT to pay for or fund (i) its current and long-term liquidity requirements, (ii) capital expenditures, (iii) outstanding debt obligations or (iv) 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. Additionally, the Corporation may loan funds to ESH REIT under the ESH REIT Intercompany Facility, subject to the conditions contained in existing debt agreements. See Note 7 to the condensed consolidated financial statements of ESH Hospitality, Inc., included in Item 1 of this quarterly report on Form 10-Q, for additional detail on ESH REIT's debt obligations. The Corporation does not expect to return additional cash to ESH REIT in the foreseeable future to the extent it is not required under existing agreements or applicable law.

Based upon the current level of operations, management believes that ESH REIT's cash position, cash flow generated from operations and, in certain circumstances, proceeds from asset sales, will be adequate to meet all of ESH REIT's funding requirements and business objectives for the foreseeable future.

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, 2020 and September 30, 2019

We had total cash, cash equivalents and restricted cash of $396.4 million and $503.3 million at September 30, 2020 and 2019, respectively. The following table summarizes the changes in our cash, cash equivalents and restricted cash as a result of operating, investing and financing activities for the nine months ended September 30, 2020 and 2019 (in thousands):

	Nine Months Ended September 30,		
	2020	2019	Change ($)
Cash provided by (used in):			
Operating activities	$ 217,231	$ 338,786	$ (121,555)
Investing activities	(143,927)	(177,099)	33,172
Financing activities	(38,529)	38,273	(76,802)
Effects of changes in exchange rate on cash and cash equivalents	(65)	43	(108)
Net increase in cash and cash equivalents	$ 34,710	$ 200,003	$ (165,293)

Cash Flows provided by Operating Activities

Cash flows provided by operating activities totaled $217.2 million for the nine months ended September 30, 2020 compared to $338.8 million for the nine months ended September 30, 2019, a decrease of $121.6 million. The decrease in cash flows provided by operating activities was due to a decline in hotel operating performance, specifically a 17.9% decrease in RevPAR driven by the negative impact of the COVID-19 pandemic, as well as the management of short-term working capital.

Cash Flows used in Investing Activities

Cash flows used in investing activities totaled $143.9 million for the nine months ended September 30, 2020 compared to $177.1 million for the nine months ended September 30, 2019, a decrease of $33.2 million. The decrease in cash flows used in investing activities was due to a net decrease in investment in property and equipment, including development in process and intangible assets, of $33.1 million.

Cash Flows (used in) provided by Financing Activities

Cash flows used in financing activities totaled $38.5 million for the nine months ended September 30, 2020 compared to cash flows provided by financing activities of $38.3 million for the nine months ended September 30, 2019. Cash flows used in financing activities increased due to a $181.1 million decline in borrowings as a result of net proceeds from the September 2019 issuance of its 4.625% senior notes due in 2027 and payments on the ESH REIT Term Facility, as well as $6.4 million used for the repurchase of the Corporation's 8.0% mandatorily redeemable preferred stock during the nine months ended September 30, 2020. These were partially offset by a decrease in Paired Share distributions of $83.6 million and the Corporation's $49.8 million draw under the Corporation Revolving Credit Facility in March 2020.

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, 2020 and September 30, 2019

ESH REIT had total cash and cash equivalents of $339.5 million and $368.3 million at September 30, 2020 and 2019, 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, 2020 and 2019 (in thousands):

	Nine Months Ended September 30,		
	2020	**2019**	**Change ($)**
Cash provided by (used in):			
Operating activities	$ 269,184	$ 347,963	$ (78,779)
Investing activities	(141,651)	(171,475)	29,824
Financing activities	(84,152)	13,312	(97,464)
Net increase in cash and cash equivalents	$ 43,381	$ 189,800	$ (146,419)

Cash Flows provided by Operating Activities

Cash flows provided by operating activities totaled $269.2 million for the nine months ended September 30, 2020 compared to $348.0 million for the nine months ended September 30, 2019, a decrease of $78.8 million. This decrease was due to a decline in percentage rent payments received due to the decline in Operating Lessee hotel revenues as a result of the COVID-19 pandemic, as well as the management of short-term working capital.

Cash Flows used in Investing Activities

Cash flows used in investing activities totaled $141.7 million for the nine months ended September 30, 2020 compared to $171.5 million for the nine months ended September 30, 2019, a decrease of $29.8 million. The decrease in cash flows used in investing activities was due to a $29.8 million net decrease in investment in property and equipment, including development in process and intangible assets.

Cash Flows (used in) provided by Financing Activities

Cash flows used in financing activities totaled $84.2 million for the nine months ended September 30, 2020 compared to cash flows provided by financing activities of $13.3 million for the nine months ended September 30, 2019. Cash flows used in financing activities increased due to a $231.0 million decline in borrowings as a result of net proceeds from the September 2019 issuance of its 4.625% senior notes due in 2027 and payments on the ESH REIT Term Facility, partially offset by a decrease in ESH REIT Class A and Class B common distributions of $124.6 million and a decrease of $9.5 million in ESH REIT Class B common stock repurchases.

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, 2020 and 2019, the Company incurred capital expenditures of $144.9 million and $178.0 million, respectively. These capital expenditures related to development and construction in process, ordinary hotel capital improvements, investments in information technology and cyclical hotel renovations. Each hotel is generally on a seven-year renovation cycle. We completed our prior cyclical hotel renovation program in mid-2017. In the fourth quarter of 2018, the Company commenced its current cyclical hotel renovation program. With respect to our current cyclical hotel renovation program, as of September 30, 2020, we have substantially completed renovations at 22 hotels for $47.4 million. We are in the process of performing renovations at 12 additional hotels, with total costs incurred for this and future planned hotel renovations of $20.4 million.

Funding requirements for future capital expenditures, including current and future cyclical hotel renovations, completing the construction of new hotels we expect to own and operate, acquiring and converting existing hotels to the Extended Stay America brand and repurposing and/or rebuilding certain of our hotel properties, will be significant and are expected to be provided primarily from cash flows generated from operations or, to the extent necessary, the Corporation or ESH REIT revolving credit facilities, including intercompany facilities and, in certain instances, proceeds from asset sales.

In 2020, we expect to incur capital expenditures between $170 million and $190 million. As part of these capital expenditures, we expect to spend approximately $65 to $70 million for construction of new hotels, $18 to $21 million for hotel renovations, $12 to $14 million for incremental information technology investments and $75 to $85 million for ordinary hotel capital improvements and related projects.

Our Indebtedness

As of September 30, 2020, the Company's total indebtedness was $2.7 billion, net of unamortized deferred financing costs and debt discounts, including $0.7 million of Corporation mandatorily redeemable preferred stock. ESH REIT's total indebtedness at September 30, 2020 was $2.6 billion, net of unamortized deferred financing costs and debt discounts. See Note 7 to the condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 1 of this quarterly report on Form 10-Q, for additional detail related to our debt obligations.

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. See Note 12 to the condensed consolidated financial statements of Extended Stay America, Inc. and Note 11 to the condensed consolidated financial statements of ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q, for additional information with respect to commitments and contingencies, including lease obligations.

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 condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual results may differ significantly from these estimates and assumptions. We believe the following accounting policies, which are described in detail in Note 2 to each of the audited consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 8 of the 2019 Form 10-K, require material subjective or complex judgments and have the most significant impact on the Company's and ESH REIT's financial condition and results of operations: property and equipment, investments, rental revenue recognition and income taxes. 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.

Recent Accounting Pronouncements

For a discussion of recently issued accounting standards, see Note 2 to each of the condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Corporation and ESH REIT may seek to reduce earnings and cash flow volatility associated with changes in interest rates and commodity prices by entering into financial arrangements to provide a hedge against a portion of the risks associated with such volatility, when applicable. We 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 foregoing objectives. We do not use derivatives for trading or speculative purposes.

The Corporation

The Corporation currently has limited exposure to market risk from changes in interest rates. As of September 30, 2020, the Corporation's variable rate debt consisted of $49.8 million drawn on its revolving credit facility. If market rates of interest were to fluctuate by 1.0%, interest expense would increase or decrease by $0.5 million annually, assuming that the amount of outstanding Corporation variable rate debt remains at $49.8 million.

ESH REIT

As of September 30, 2020, $614.8 million of ESH REIT's outstanding gross debt of $2.7 billion had a variable interest rate. ESH REIT is a counterparty to an interest rate swap at a fixed rate of 1.175%. The notional amount of the interest rate swap as of September 30, 2020 was $100.0 million, which is reduced by $50.0 million every six months until the swap matures in September 2021. The remaining $524.6 million of outstanding variable interest rate debt not subject to the interest rate swap remains subject to interest rate risk. If market rates of interest were to fluctuate by 1.0%, interest expense would increase or decrease by $5.2 million annually, assuming that the amount of outstanding ESH REIT unhedged variable interest rate debt remains at $524.6 million.

Item 4. Controls and Procedures

Controls and Procedures (Extended Stay America, Inc.)

Disclosure Controls and Procedures

As of September 30, 2020, 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

During the three months ended September 30, 2020, Extended Stay America, Inc. implemented a new accounts payable workflow system. There were no other changes in Extended Stay America, Inc.'s internal control over financial reporting that occurred during the 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.

Controls and Procedures (ESH Hospitality, Inc.)

Disclosure Controls and Procedures

As of September 30, 2020, 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

During the three months ended September 30, 2020, ESH Hospitality Inc. implemented a new accounts payable workflow system. There were no other changes in ESH Hospitality, Inc.'s internal control over financial reporting that occurred during the 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.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time subject to various litigation and claims incidental to our business. We recognize a liability when we believe a loss is probable and can be reasonably estimated. However, the ultimate result of litigation and claims cannot be predicted with certainty.

As of September 30, 2020, the following six purported class action lawsuits have been filed against the Company:

Date of Filing	Plaintiff(s)	Defendant(s)	Court
March 27, 2018	Tracy Reid, on behalf of himself, all others similarly situated	ESA Management, LLC	US District Court, Northern District of California
June 8, 2018	Franisha Beasley and Stephanie Randall, individually and on behalf of others similarly situated	ESA Management, LLC	US District Court, Northern District of California
July 13, 2018	Adrienne Liggins, individually and on behalf of others similarly situated and aggrieved	ESA Management, LLC, Extended Stay America - Anaheim Convention Center	US District Court, Northern District of California
July 13, 2018	Bridget Liggins, individually and on behalf of others similarly situated and aggrieved	ESA Management, LLC	State of California, Orange County Superior Court
August 21, 2018	Sandra Arizmendi, an individual, on behalf of the State of California, as private attorney general, and on behalf of all others similarly situated	ESA Management, LLC	US District Court, Northern District of California
January 18, 2019	Lisa M. Sanchez, individually and on behalf of all others similarly situated	Extended Stay America, Inc. and ESA Management, LLC	State of California, Orange County Superior Court

The complaints above allege, among other things, failure to provide meal and rest periods, wage and hour violations and violations of the Fair Credit Reporting Act. The complaints seek, among other relief, collective and class certification of the lawsuits, unspecified damages, costs and expenses, including attorneys' fees, and such other relief as the court might find just and proper.

With respect to the Fair Credit Reporting Act violations alleged in the lawsuits described above, the parties reached a tentative settlement agreement in May 2019, which is subject to certain conditions, including court approval. During the three months ended June 30, 2019, the Company recorded a payable and a corresponding insurance receivable for the amount of the tentative settlement. The expected resolution of the alleged Fair Credit Reporting Act violations in the lawsuits did not have, and is not expected to have, a material adverse impact on the Company's condensed consolidated financial statements, results of operations or liquidity.

With respect to the meal and rest period and the wage and hour violations alleged in the lawsuits described above, excluding the Sanchez lawsuit described below, the parties reached a tentative settlement agreement in January 2020, which is subject to certain conditions, including court approval. During the three months ended December 31, 2019, the Company incurred a loss and recorded a charge equal to the amount of the tentative settlement. The expected resolution of the alleged meal and rest period and wage and hour violations in the lawsuits did not have, and is not expected to have, a material adverse impact on the Company's condensed consolidated financial statements, results of operations or liquidity.

With respect to the Sanchez lawsuit, although the Company believes it is reasonably possible that it may incur losses associated with such matter, it is not possible to estimate the amount of loss or range of loss, if any, that might result from adverse judgments, settlements or other resolution based on the early stage of the lawsuit, the uncertainty as to the certification of a class or classes and the size of any certified class, if applicable, and the lack of resolution of significant factual and legal issues. However, depending on the amount and timing, an unfavorable resolution of the lawsuit or a change in the Company's assessment of the likelihood of loss could have a material adverse effect on the Company's condensed consolidated financial statements, results of operations or liquidity in a future period. We believe that we have meritorious defenses and are prepared to vigorously defend the lawsuit.

We are also subject to various other litigation and claims incidental to our business. We believe we have adequate reserves against such matters. In the opinion of management, such matters, individually or in the aggregate, will not have a material adverse effect on the Company's condensed consolidated financial statements, results of operations or liquidity or on ESH REIT's condensed consolidated financial statements, results of operations or liquidity.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in "Part I. Item 1A. Risk Factors" in the 2019 Form 10-K, as well as the risk factors below, which supplement and should be read in conjunction with the risk factors disclosed in our 2019 Form 10-K, any and all of which could materially affect our business, financial condition, or future results. The potential effects of COVID-19 could intensify or otherwise affect many of our other risk factors included in our 2019 Form 10-K, including, but not limited to, risks inherent to the lodging industry, macroeconomic factors beyond our control, our business strategy, competition for hotel guests and management and franchise contracts and risks related to doing business with third-party hotel owners. Because the COVID-19 situation is continuously evolving, additional impacts to our risk factors that are further described in our 2019 Form 10-K remain uncertain.

The continuing crisis resulting from the COVID-19 pandemic has negatively affected and will likely continue to negatively affect our business, results of operations, financial condition and cash flows.

The COVID-19 pandemic has significantly affected the global economy and strained the lodging industry due to travel restrictions, stay-at-home directives and changing consumer patterns in response to the pandemic, which have resulted in reduced travel and cancellations. Currently, there are no fully effective vaccines, the timing and efficacy of any future vaccine is uncertain and there is no widespread treatment for COVID-19. As such, COVID-19 has had a negative impact on our results of operations for the nine months ended September 30, 2020, and we expect it to continue to negatively affect future results. The current and uncertain future impact of the COVID-19 pandemic, including its effect on the ability or desire of people to travel and use our hotel properties, may to continue to negatively affect our business, results of operations, financial condition and cash flows.

We have been, and expect to continue to be, negatively affected by government regulations and travel advisories to fight the pandemic, including occupancy limits for certain business establishments, which may in the future include our hotels, and requirements that individuals self-quarantine when traveling from one state to another. Lodging demand may remain weak for an undetermined length of time and we cannot predict if or when ADR and occupancy rates will return to pre-outbreak levels. Adverse changes in the perceived or actual economic climate, including higher unemployment rates, declines in income levels and loss of personal wealth resulting from the impact of COVID-19, are expected to continue to negatively affect travel and lodging demand. If efforts to mitigate the spread of COVID-19 fail or if the easing or removal of existing restrictions leads to a second wave of the pandemic, government officials may order closures of our properties or impose further restrictions on travel, or the Company may elect, on a voluntary basis, to close certain of our properties. Any of these events could result in further disruption to our operations and an additional decrease in demand for our hotels. If the value of our hotel properties significantly declines, we may incur impairment charges in the future, which would adversely impact our results of operations.

During the nine months ended September 30, 2020, we reduced a portion of our variable operating costs, a component of which included a decline in labor hours for certain employees on staff at certain of our hotels. The steps we have taken to reduce operating costs and additional steps we may take in the future to reduce operating costs may negatively affect our brand reputation or our ability to attract and retain employees. Even after the COVID-19 pandemic subsides, we could experience unfavorable long-term impacts on our operating costs as a result of attempts to counteract future outbreaks of COVID-19 or other viruses due to, for example, enhanced health and hygiene requirements in one or more regions or other such measures. In addition, in March 2020 we adopted a policy for corporate employees to work from home to the extent possible that remains in effect. Our operations could be negatively affected by such policy to the extent certain operational resources are not available and efficiency declines as a result. Should any corporate or other team members become ill from COVID-19 and unable to work, the attention of management could be diverted. Such disruptions to our businesses could ultimately increase overall operating costs and decrease operating efficiencies.

It continues to be a challenge to predict the ultimate impact that COVID-19 will have on third-party owners, service providers, travel agencies, suppliers and other vendors. In particular, if third-party owners of our hotels are unable to maintain their hotels and service indebtedness secured by their hotels, our results of operations and reputation could suffer. Bankruptcies, sales or foreclosures involving our hotels could, in some cases, result in the termination of our management or franchise agreements, which would negatively affect our results of operations. Hotel owners with financial difficulties may be unable or unwilling to pay us amounts that we are entitled to on a timely basis or at all. Current and ongoing economic conditions also could affect our ability to enter into management and franchise agreements with potential third-party owners of our hotels, who may be unable to obtain financing or face other delays in developing hotel projects. As a result, some properties in our development pipeline may not enter our system when we anticipated, or at all, and new hotels may enter our pipeline at a slower rate than expected.

The performance of the lodging industry, including the extended stay segment, is closely linked to the performance of the general economy and is sensitive to business and personal discretionary spending levels, which may continue to be impacted even after the COVID-19 pandemic subsidies. Declines in corporate budgets and spending and in consumer demand, concerns over recessionary economic conditions, risks affecting or reducing travel patterns, lower consumer confidence, increases in unemployment or adverse political conditions may have a material adverse effect on revenues and profitability of our hotels, including the amount of franchise and management fee revenues we are able to generate. We rely on the strength of regional and local economies with respect to the performance of each of our properties.

The extent of the effects of COVID-19 on our business and the overall lodging industry is highly uncertain and will ultimately depend on future developments, including, but not limited to, the duration and severity of the outbreak, the possibility of a second wave of the outbreak, the timing and availability of vaccinations and other treatments, and the length of time it takes for lodging demand and pricing to stabilize. Given this uncertainty, we are presently unable to estimate the full impact to our future results of operations, cash flows and financial condition.

The continuing crisis resulting from the spread of COVID-19 could negatively impact our current liquidity position, limit or restrict our ability to access new sources of capital and negatively impact our ability to maintain compliance with the financial covenants and other terms of the agreements governing our existing indebtedness.

We must maintain, renovate and improve our hotel properties in order to remain competitive, maintain the value and brand standards of our hotel properties and comply with applicable laws and regulations. Maintenance, renovations and improvements to our hotel properties create an ongoing need for cash for us or our franchisees, and, to the extent this need cannot be funded from cash generated by operations, funds must be borrowed or otherwise obtained. Our hotels are our primary source of income and cash flow from operations. Although we generated cash flow from operations of $217.2 million during the nine months ended September 30, 2020, such amount represents a decrease of $121.6 million compared to the nine months ended September 30, 2019. In light of this decrease in cash flows and the expectation that our cash flows will continue to decline on a period-over-period basis for an amount of time that cannot be predicted with certainty, in March 2020 we fully drew on approximately $400 million under our revolving credit facilities. In August 2020, we repaid $350.0 million (the full amount) under the ESH REIT Revolving Credit Facility. As of September 30, 2020, approximately $50 million (the full amount) remains outstanding on the Corporation Revolving Credit Facility, with no additional borrowing capacity, and $350 in borrowing capacity remains available under the ESH facilities.

We may be required to raise additional capital in the future and our access to and cost of financing will depend on, among other things, economic conditions, conditions in financial markets, the availability of sufficient amounts of financing, our prospects and credit ratings. If our credit ratings are downgraded, or general market conditions ascribe higher risk to our rating levels, our industry or us, then our access to capital and the cost of any debt financing will likely be negatively affected. In addition, the terms of future debt agreements may include more restrictive covenants, or require incremental collateral, which may further restrict our business operations. There is no guarantee that debt financings will be available in the future to fund our obligations, including the maturity of existing debt facilities, or that they will be available on terms consistent with our expectations.

We have no control over and cannot predict the length of the crisis nor any government response to the crisis, including any future shelter in place or stay-at-home orders, which could result in another shut down of the national economy. The negative impact to our operations as a result of the COVID-19 pandemic has substantially reduced RevPAR due to declines in occupancy rates and ADR. If we are unable to generate sufficient revenues from our hotels or if we continue to experience declines in demand, this could negatively impact our ability to remain in compliance with our debt covenants or meet our payment obligations. We may not be able to meet our debt covenants or pay our obligations as they become due and could risk default under the agreements governing our indebtedness, including our credit facilities and indentures governing our senior notes, which could give lenders the right to accelerate the amounts outstanding, and therefore raise substantial doubt about our ability to continue as a going concern.

In response to these concerns, in May 2020 we amended the Corporation Revolving Credit Facility to, among other things, suspend the quarterly tested leverage covenant for the fiscal quarters ending June 30, 2020, September 30, 2020, December 31, 2020 and March 31, 2021. In addition, for the quarter ended June 30, 2021 through the quarter ended December 31, 2021, the leverage covenant calculation was modified to use annualized EBITDA as opposed to trailing twelve-month EBITDA. Throughout the suspension period, the Company has agreed to maintain minimum liquidity of $150.0 million and to limit share repurchases and dividend payments made by the Corporation. We cannot assure you that the Corporation Revolving Credit Facility amendment will be the only covenant suspension, waiver or amendment required by us or that this amendment will prevent us from future covenant breaches or the acceleration of our indebtedness. Also, in response to reductions in cash flow from operations at the Corporation due to the COVID-19 pandemic and current and expected future reductions in distribution income in respect of its ownership of 100% of the Class A common stock of ESH REIT, in July 2020 we entered into an intercompany lending facility between the Corporation, as borrower, and ESH REIT, as lender, in an effort to further ensure the Corporation's current and future liquidity. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—the Corporation."

Since the first confirmed case of COVID-19 in the United States in late January 2020, the market price of our Paired Shares has declined. If the share price continues to be depressed or decreases further, it may cause a trigger event for impairment testing of certain tangible and intangible assets, including goodwill, long-lived assets and our trademark, which could have an impact on the value of collateral pledged in connection with our credit facilities.

As a result of and in response to the COVID-19 pandemic, the Corporation and ESH REIT expect to, subject to compliance with the requirements for qualification as a REIT, materially reduce the amount of cash distributions paid to holders of our Paired Shares during fiscal year 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Purchases of Equity Securities by the Issuers and Affiliated Purchasers

No Paired Shares were repurchased during the three months ended September 30, 2020.

In December 2015, the Boards of Directors of the Corporation and ESH REIT authorized a combined Paired Share repurchase program. As a result of several increases in authorized amounts and program extensions, the combined Paired Share repurchase program currently authorizes the Corporation and ESH REIT to purchase up to $550 million in Paired Shares through December 31, 2020. Repurchases may be made at management's discretion from time to time in the open market, in privately negotiated transactions or by other means (including through Rule 10b5-1 trading plans). As of September 30, 2020, $101.1 million remained under the combined Paired Share repurchase program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
10.1	Credit Agreement, dated as of July 2, 2020, between Extended Stay America, Inc., as borrower, and ESH Hospitality, Inc., as lender (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-36190) filed July 6, 2020, and incorporated by reference herein).
10.2†	Separation Agreement between Extended Stay America, Inc., ESH Hospitality, Inc. and Brian Nicholson, dated as of September 10, 2020 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-36190) filed September 11, 2020, and incorporated by reference herein).
10.3†	Offer Letter between Extended Stay America, Inc., ESH Hospitality, Inc. and David Clarkson, dated as of September 10, 2020 (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-36190) filed September 11, 2020, and incorporated by reference herein).
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.
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
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

* Filed herewith.
† Management contract or compensatory plan or arrangement.

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: November 9, 2020	By:	/s/ Bruce N. Haase Bruce N. Haase President and Chief Executive Officer
Date: November 9, 2020	By:	/s/ David A. Clarkson David A. Clarkson Chief Financial Officer
		ESH HOSPITALITY, INC.
Date: November 9, 2020	By:	/s/ Bruce N. Haase Bruce N. Haase President and Chief Executive Officer
Date: November 9, 2020	By:	/s/ David A. Clarkson David A. Clarkson Chief Financial Officer

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Bruce N. Haase, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Extended Stay America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

/s/ Bruce N. Haase
Bruce N. Haase
President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David A. Clarkson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Extended Stay America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

/s/ David A. Clarkson
David A. Clarkson
Chief Financial Officer

Exhibit 31.3

<u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>

I, Bruce N. Haase, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ESH Hospitality, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020	/s/ Bruce N. Haase
	Bruce N. Haase
	President and Chief Executive Officer

Exhibit 31.4

<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>

I, David A. Clarkson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ESH Hospitality, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2020

/s/ David A. Clarkson
David A. Clarkson
Chief Financial Officer

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Bruce N. Haase, President and Chief Executive Officer, and David A. Clarkson, Chief Financial Officer of Extended Stay America, Inc., each certifies with respect to the quarterly report of Extended Stay America, Inc. on Form 10-Q for the quarterly period ended September 30, 2020 (the "Report") that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Extended Stay America, Inc.

Date: November 9, 2020	/s/ Bruce N. Haase Bruce N. Haase President and Chief Executive Officer
Date: November 9, 2020	/s/ David A. Clarkson David A. Clarkson Chief Financial Officer

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Bruce N. Haase, President and Chief Executive Officer, and David A. Clarkson, Chief Financial Officer of ESH Hospitality, Inc., each certifies with respect to the quarterly report of ESH Hospitality, Inc. on Form 10-Q for the quarterly period ended September 30, 2020 (the "Report") that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ESH Hospitality, Inc.

Date: November 9, 2020	/s/ Bruce N. Haase Bruce N. Haase President and Chief Executive Officer
Date: November 9, 2020	/s/ David A. Clarkson David A. Clarkson Chief Financial Officer