UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	**Chapter 11 Case No.**
EXTENDED STAY INC., et al.,	:	**09-13764 (JMP)**
Debtors.	:	**(Jointly Administered)**

DECLARATION OF ARI LEFKOVITS IN SUPPORT OF CONFIRMATION OF THE DEBTORS' FIFTH AMENDED JOINT PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

STATE OF NEW YORK)
) s.s.:
COUNTY OF NEW YORK)

I, Ari Lefkovits, being duly sworn, hereby declare that the following is true and correct to the best of my knowledge, information, and belief:

1. I am a Director in the Restructuring Group of Lazard Freres & Co. LLC ("***Lazard***"), an investment banking and financial advisory firm retained by ESA Properties LLC and seventy-three of its debtor affiliates, as debtors and debtors in possession (collectively, the "Debtors"),[1] pursuant to that certain order, dated July 23, 2009 to provide services to the Debtors in the Debtors' Chapter 11 Cases.[2] [Docket No. 206].

2. I submit this declaration in support of confirmation of the Debtors' Fifth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, Dated June 8, 2010, as Amended (the "Plan"). Unless otherwise indicated, I have personal knowledge of the

[1] Lazard is also retained by Extended Stay Inc., which is not being reorganized pursuant to the Plan.

[2] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Plan.

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information provided and the matters described herein, and if called as a witness, I would testify competently to the facts and opinions set forth herein.

Background and Qualifications

3. I hold a Bachelor's degree from Dartmouth College and a law degree from Stanford Law School. I am admitted to the bar in the states of New York and Massachusetts. I joined Lazard in 1999 and am currently a Director at the firm. I have provided financial advisory services to debtors and creditors through in-court and out-of-court reorganizations in a number of industries. These matters have included bankruptcy planning and process oversight, financing, valuation advice, execution of buy-side and sell-side transactions, labor negotiations, retiree medical and pension negotiations, as well as other general reorganization strategy matters. I also have significant expertise in marketing and selling assets held by debtors in bankruptcy. I have worked on multiple chapter 11 engagements, including LandSource, Vertis, Crescent Resources, New Century, Kaiser Aluminum, Asia Global Crossing, Collins & Aikman, and Metromedia Fiber Network.

Retention of Lazard

4. Lazard is the Debtors' financial advisor and investment banker. The Debtors retained Lazard in September of 2008 to assist the Debtors with, among other things, reviewing the Debtors' options with regard to restructuring their businesses. After the commencement of these chapter 11 cases, the Debtors formally retained Lazard to act as the Debtors' financial advisor in these chapter 11 cases, and Lazard has been involved throughout the entirety of these chapter 11 cases.

5. I am one of the bankers leading the Lazard team that represents the Debtors. During the course of Lazard's representation of the Debtors, I have become generally familiar with Debtors and their day-to-day operations and finances and the Debtors' capital

structure.

The Plan Satisfies Section 1129 of the Bankruptcy Code

6. Compliance with Chapter 11 Requirements. On the basis of my understanding of the Plan, the events that have occurred throughout the Debtors' chapter 11 cases, the obligations imposed upon the Debtors as a result of various orders entered during the Debtors' chapter 11 cases, and the requirements of the Bankruptcy Code, I believe that the Plan complies with the applicable provisions of the Bankruptcy Code for confirmation of a plan of reorganization.

7. On the basis of conversations with counsel, I believe the Debtors have complied with the applicable provisions of the Bankruptcy Code, including the provisions of sections 1125 and 1126, as well as the Order (I) Pursuant to Sections 105 and 363(b) of the Bankruptcy Code Approving Investment Agreement with Successful Bidder, (II) Approving Disclosure Statement Reflecting the Successful Bid, (III) Establishing Solicitation and Voting Procedures, (IV) Scheduling a Confirmation Hearing, and (V) Establishing Notice and Objection Procedures for Confirmation of the Debtors' Proposed Plan of Reorganization (the "Disclosure Statement Order") regarding disclosure and Plan solicitation. [Docket No. 1098].

8. Good Faith of the Debtors in Proposing the Plan. The Plan has been proposed with the legitimate and honest purpose of reorganizing the Debtors' business and affairs, and maximizing the value available for distribution to Creditors. The Plan (including all documents necessary to effectuate the Plan) is the result of extensive arms-length negotiations among the Debtors, the Investor, the Sponsors, the Special Servicer, the Debt Financing Lenders, and the Creditors' Committee and their respective advisors. In my opinion, each of these parties has acted in good faith. The Plan contemplates and is premised upon the sale of the Tier 1

Debtors to NewCo, which will in turn contribute proceeds of the sale to fund the distributions contemplated by the Plan. The Plan also provides for the issuance to the holder of the ESA UD Mortgage Claim of the ESA UD Mortgage Note, an approximately 80% distribution to holders of General Unsecured Claims, and the potential for recoveries for holders of mezzanine claims and other unsecured creditors through the creation of a Litigation Trust. The Plan therefore, achieves one of the primary objectives underlying a chapter 11 case: the equitable distribution of value to creditors. At the same time, the Plan provides for the rehabilitation and continuation of the Debtors' businesses, albeit under different ownership. Further, the limited release and exculpation provided in sections 10.9, 10.10 and 10.12 of the Plan have been agreed to in good faith and represent a valid exercise of the Debtors' business judgment, are fair and reasonable, and in the best interests of the estates and creditors. I believe that, inasmuch as the Plan promotes the rehabilitative objectives and purposes of the Bankruptcy Code, while also providing for a recovery to creditors, the Plan and the related documents have been filed in good faith.

9. Payments to Retained Professionals. I understand that all payments made or to be made by the Debtors to their retained advisors for services or for costs and expenses in or in connection with the chapter 11 cases, or in connection with the Plan and incident to the chapter 11 cases, have been approved by, or are subject to the approval of, the Bankruptcy Court.

10. Officers and Directors of the Reorganized Debtors. The Sponsors are required to disclose, in the Plan Supplement, the identity and affiliations of any individuals who will serve as members of the NewCo Board of Managers. I understand that there will be no officers of NewCo or the Reorganized Debtors because these companies will be run by HVM after the Effective Date. Inasmuch as holders of Claims (other than the holder of the ESA UD

Claim) and Interests will not receive debt or equity of the Reorganized Debtors under the Plan, the method of selection of the officers and directors has little relevance to creditors and equity security holders. I understand that, with the exception of management and employees of HVM, none of the Debtors' insiders will be employed or retained by the Reorganized Debtors. I believe the provisions of the Plan, and the organizational documents of NewCo and the Reorganized Debtors, are consistent with the interests of creditors, equity security holders, and public policy.

11. Rates. I understand that the Debtors are not changing any rates under the Plan that require approval by any governmental agency. I have been advised by counsel that the Debtors are not subject to any regulation over the rates they charge, nor will they be subject to such regulation after confirmation of the Plan.

12. Liquidation Analysis. The Debtors and Lazard have prepared an analysis of the estimated recovery that holders of Claims and Interests in classes that are impaired under the Plan would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code (the "Liquidation Analysis"). The Liquidation Analysis is set forth in "Exhibit D" of the Disclosure Statement For the Debtors' Fifth Amended Plan of Reorganization Under Chapter 11 of the Bankruptcy Code [Docket No. 1028] (the "Disclosure Statement").

13. The Liquidation Analysis estimates the effects that a conversion of the Debtors' chapter 11 cases to cases under chapter 7 would have on the proceeds available for distribution to holders of Claims and Equity Interests under the Plan. The Liquidation Analysis analyzes a hypothetical liquidation of the Debtors other than ESA UD Properties L.L.C. ("ESA UD"), and a separate hypothetical liquidation of ESA UD itself, and the proceeds that could be raised through each of these liquidations. The Liquidation Analysis assumes that a chapter 7

trustee would arrange for the Debtors to sell their assets on a going-concern basis. The other major assumptions used in the Liquidation Analysis are described therein. I believe that the assumptions underlying the Liquidation Analysis are reasonable and that the Liquidation Analysis provides a reasonable estimate of the chapter 7 liquidation value of the Debtors' assets and the distributions that holders of Claims and Equity Interests would receive in a chapter 7 liquidation of the Debtors.

14. The results of the Liquidation Analysis are described therein. The only voting impaired Class that contains any holders of Claims or Interests that did not vote in favor of the Plan is Class 4B (Mezzanine Facilities Claims). The Liquidation Analysis reflects that if the Debtors were liquidated under chapter 7 of the Bankruptcy Code, the holders of Claims in Class 4B would not receive any distribution. As described in Article II of the Disclosure Statement titled "Summary of the Plan," the percentage recovery available for this Class under the Plan is contingent on future events because recoveries for this class depend on the successful prosecution of actions by the Litigation Trustee. However, this contingent recovery is still of greater value than the value recoverable for this Class in liquidation, which is estimated in the Liquidation Analysis to be zero. The only impaired Classes that did not accept the Plan are Classes 6 (Existing Equity) and 15 (Other Existing Equity). These Classes will not receive a distribution under either the Plan or in liquidation, and, accordingly, these two Classes of Equity Interests would receive the same recovery under both the Plan and in liquidation.

15. With respect to the above Class of impaired Claims in Class 4B, and the Equity Interests in Classes 6 and 15, I have compared the results of the foregoing analysis with the recoveries estimated in the Disclosure Statement. I conclude that each holder of an impaired Claim in Class 4B (Mezzanine Facilities Claims), and each holder of an Equity Interest in the

Debtors in Classes 6 and 15, will receive a distribution or retain property under the Plan, on account of its respective Claim or Equity Interest, of a value as of the Effective Date that is not less than the amount that such holder of a Claim or Equity Interest would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code.

16. Impaired Classes. Holders of Claims in Classes 1 and 16 and holders of Interests in Classes 7 through 14 are unimpaired under the Plan. Classes 2, 3, 4A, 4B and 5, each of which is an impaired Class of Claims eligible to vote, have affirmatively voted to accept the Plan.

17. Holders of Existing Equity (Class 6) and Other Existing Equity Interests (Class 15) will not receive or retain any property on account of their Equity Interests in the Debtors under the Plan.

18. Allowed Priority Claims. With respect to Administrative Expense Claims, in accordance with section 1129(a)(9)(A) of the Bankruptcy Code, the Plan provides that administrative expenses shall be (i) assumed and paid by the Reorganized Debtors or NewCo in accordance with the terms and conditions of the particular transactions and any agreements relating thereto, (ii) paid on the Effective Date, or (iii) paid from the Administrative/Priority Claims Reserve as soon as practicable after such Administrative Expense Claim becomes Allowed. *See* Plan at § 2.1.

19. With respect to the payment of Allowed Priority Non-Tax Claims, in accordance with section 1129(a)(9)(B) of the Bankruptcy Code, Section 4.1 of the Plan provides that each holder of an Allowed Priority Claim shall be paid the Allowed Amount of its Allowed Priority Claim from the Administrative/Priority Claims Reserve, in full, in Cash, on the later of the Effective Date and as soon as practicable after the date such Priority Claim becomes

Allowed.

20. With respect to the payment of Priority Tax Claims, in accordance with section 1129(a)(9)(C) of the Bankruptcy Code, Section 2.3 of the Plan provides for payment of each Allowed Priority Tax Claim from the Administrative/Priority Claims Reserve either (a) in full, in Cash, on the latest of (i) the Effective Date, (ii) the date such Allowed Priority Tax Claim becomes Allowed, and (iii) the date such Allowed Priority Tax Claim is payable under applicable non-bankruptcy law or (b) upon such other terms as may be mutually agreed upon between each holder of a Priority Tax Claim and the Plan Administrator.

21. Secured tax claims fall in Class 16 (Other Secured Claims) and are unimpaired. Class 16 provides for several different types of treatment, including any manner of distribution required pursuant to the Bankruptcy Code. Accordingly, the treatment described in Class 16 protects the rights of creditors holding Secured Claims including the rights of taxing authorities under section 1129(a)(9)(C) of the Bankruptcy Code.

22. Acceptance of the Plan by At Least One Impaired Class. Impaired Classes 2, 3, 4A, 4B and 5 have affirmatively accepted the Plan, without including the acceptance of the Plan by insiders in such Classes. *See* KCC Declaration ¶ 10.

23. Feasibility of the Plan. For purposes of determining whether the Plan is feasible, *i.e.*, that it is not likely to be followed by liquidation, or the need for further financial reorganization, the Debtors, with the assistance of Lazard, have analyzed their ability to service the indebtedness contemplated by the Plan, pay their operating expenses, and make necessary capital expenditures. As part of this analysis, the Debtors have prepared projections of their financial performance for four (4) fiscal years from 2010 through 2014 (the "Projections"), including a projected pro forma balance sheet, statement of operations, and statement of cash

flows. *See* Disclosure Statement "Exhibit C." As set forth in the Disclosure Statement, the Projections are premised upon numerous assumptions, including, among other things, the successful implementation of the Debtors' business plan, assumptions about economic and lodging industry trends, a timely Effective Date, the total amount of Allowed Claims in each class equaling the estimated amount, and that there are no material cure payments for the assumption of executory contracts and unexpired leases. *See id*. The Projections indicate that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successor to the Debtors under the Plan, based upon my understanding of the Investor's capital structure.[3]

24. Based upon the foregoing, I believe that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization.

25. Statutory Fees. It is my understanding that the Debtors have paid all chapter 11 filing and operating fees required to be paid during these cases and filed all fee statements required to be filed. Section 13.2 of the Plan provides that all fees payable pursuant to section 1930 of title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid by the Debtors on or before the Effective Date.

26. Inapplicability of Sections 1129(a)(13)-(16). I have been advised by counsel that sections 1129(a)(13), 1129(a)(14), 1129(a)(15) and 1129 (a)(16) of the Bankruptcy Code are inapplicable to the Debtors.

27. Treatment of Equity Interests. Two Classes of Equity Interests, consisting of Class 6 (Existing Equity) and Class 15 (Other Existing Equity Interests) (together the "Rejecting Classes") are deemed to reject the Plan. The Rejecting Classes consist of certain

[3] This conclusion is premised on the Debtors' business plan, and not the business plan of the Sponsors. In addition, the capital structure of the Reorganized Debtors and NewCo may change in the future.

Equity Interests in the Debtors, and no holders of similar Equity Interests are treated differently. Although the Plan preserves Equity Interests in Classes 7 through 14, such Equity Interests will be transferred, either through the transfer of the parent company holding the Equity Interest or through the transfer of an indirect parent company, to NewCo. Therefore, the Equity Interests in Classes 7 through 14 are not preserved for the benefit of holders of prepetition Equity Interests in any of the Debtors, but rather for the benefit of the purchasers of the Debtors' companies, who have sought the preservation of such Equity Interests because keeping such Equity Interests in place is of value to the Investor. No other class of Claims or Equity Interests having similar legal rights to the Rejecting Classes is receiving different or better treatment under the Plan. In addition, there is no interest that is junior in priority to the Equity Interests of the Rejecting Classes, and, accordingly, no interests junior to the interests of the Rejecting Classes will receive or retain any property under the Plan on account of such junior interests.

Releases

Releases By the Debtors

28. As set forth in section 10.10 of the Plan, a release by the Debtors (the "Debtors' Release") provides that "Debtors [and the] the Reorganized Debtors. . . shall release unconditionally and forever each Released Party from any and all Claims, demands, causes of action and the like, relating to the Debtors or their Affiliates existing as of the Effective Date or thereafter arising from any act, omission, event or other occurrence that occurred on or prior to the Effective Date . . . ." Based upon my participation in the auction and the negotiations that occurred both before and after the auction, I believe that the Debtors' Release is an integral part of the Plan and was required in order to induce various parties to support the Plan and/or to contribute substantial value to the Debtors' estates. It is my understanding that the Released Parties, and especially the Investor and the Sponsors, sought the inclusion of the Debtors'

Release in the Plan, and the Debtors' Release is a significant inducement to key parties who support the Plan. Furthermore, I do not believe that the Debtors are forfeiting any valuable claims or causes of action against the Released Parties because I understand that claims identified in the Examiner's report have been preserved under the Plan for the Litigation Trust.

Release of Non-Debtors by Third Parties

29. Certain of the releases provided for in section 10.10 of the Plan release claims against non-debtors that are held by three categories of third parties (the "Non-Debtor Releases"). The Non-Debtor Releases are largely consensual and are an integral part of the bargain struck among numerous parties to achieve a nearly consensual restructuring.

30. On the basis of discussions with counsel, I believe that the Non-Debtor Releases are narrowly tailored to release parties whose efforts, money, or support was essential to these chapter 11 cases, the auction process that resulted in the Sponsors funding approximately $3.925 billion for distributions to Creditors, and the development and acceptance of the Plan. The parties giving the Non-Debtor Releases fall into three categories: (i) NewCo, (ii) holders of Claims that voted to accept the Plan, abstained from voting on the Plan, or are deemed to accept the Plan, and (iii) holders of Mortgage Certificates. The Non-Debtor Releases pertain to causes of action relating to the Debtors and their Affiliates existing as of the Effective Date, or arising after the Effective Date from acts and omissions occurring before the Effective Date. The Non-Debtor Releases expressly carve out and do not apply to (i) Guaranty Claims (other than a Guaranty Claim against a Debtor) related to the Mortgage Facility or the Mezzanine Facility, (ii) potential causes of action identified by the Examiner, and (iii) any claims against any Released Party resulting from acts or omissions determined by a court to have constituted willful misconduct or gross negligence.

31. The Released Parties fall into four categories based on their role in the restructuring of the Debtors, and the circumstances supporting their release under Section 10.10 of the Plan vary. The first category is comprised of parties (1) whose release is essential to the achievement of the sale transactions that underpin the Plan, and/or (2) who are making a substantial contribution in the form of the cash that will be used to fund the distributions provided under the Plan. This category includes (i) NewCo, (ii) the Investor, (iii) each Sponsor, (iv) the Debt Financing Lenders, (v) HVM, and (vi) HVM Manager. The Investor and the Sponsors, through their cash contribution, and the Debt Financing Lenders, through the financing they have committed to provide to the Investor and NewCo, are contributing approximately $3.925 billion of cash to the Debtors' reorganization. This cash infusion is being used to provide creditors with substantial recoveries, without which the Debtors would not be able to emerge from chapter 11. The Sponsors prevailed at a nineteen hour auction and agreed to provide the Debtors with approximately $3.925 billion in cash. The Debt Financing Lenders also played a crucial role in these chapter 11 cases by providing the Sponsors with fully committed financing before the auction, which helped fuel a robust auction process. I believe that, without these contributions, the Plan — and the recoveries it provides to, among others, the holder of the Mortgage Facility Claim — would simply not be possible in its current form.

32. Each of these parties has bargained for the Non-Debtor Releases, as part of the consideration received for its substantial financial contribution. These parties also bargained for the release to apply to NewCo, which will be owned by the Investor and the Sponsors, and to HVM and HVM Manager. Further, as HVM will continue as manager after the Effective Date and the Sponsors are acquiring control of HVM as part of the restructuring, it is essential to the Sponsors and their agreement to fund the Plan that HVM be granted the release.

Based upon my participation in negotiations regarding the Investment Agreement and the Plan, I believe that it is unlikely the Sponsors, the Investors or the Debt Financing Lenders would have participated in these chapter 11 cases or would consummate the transactions contemplated by the Plan without the proposed releases.

33. The second category of Released Parties, the Mortgage Debt Parties,[4] confronted novel challenges and faced unique risks, as they worked to restructure the Mortgage Facility in the context of a chapter 11 restructuring. Notwithstanding voluminous and complex documentation which provided little, if any, guidance to the Mortgage Debt Parties, and without meaningful legal precedent as to their rights, role and obligations regarding restructuring commercial mortgage-backed securities in a chapter 11 case, the Special Servicer, working with the other Mortgage Debt Parties, agreed to permit the auction, negotiated a chapter 11 plan, and determined to vote the Mortgage Facility Claim in favor of the Plan. These actions and their cooperation were critical to the Debtors' ability to develop and propose a consensual plan.

34. The third category of Released Parties are contributing assets or value to the Debtors' reorganization and consists of (i) Lightstone Holdings LLC, (ii) BHAC, (iii) HVM Manager Owner (David Lichtenstein), and (iv) ESI (including its affiliates, directors and officers). Lightstone Holdings LLC has, without compensation, and fully aware that its Equity Interests would not survive the Chapter 11 Cases, provided the Debtors' estates with certain necessary services. In particular, Joseph Teichman, the General Counsel of Lightstone, served as an officer and director of the Debtors and has devoted a substantial amount of time to working on the restructuring of the Debtors' businesses, facilitating negotiations and decisions on behalf of the Debtors, and taking responsibility for and signing important documents, including the

[4] These parties include (i) the Special Servicer, (ii) the Mortgage Facility Trust, (iii) the Master Servicer, (iv) the Trustee, (v) the Successor Trustee, (vi) the Operating Advisor, and (vii) the Controlling Holder.

Debtors' schedules and monthly operating reports. Such services were necessary for the Debtors to conduct the Chapter 11 Cases, engage in restructuring negotiations, and enter into an Investment Agreement. BHAC entered into the BHAC IP Transfer Agreement , which was required by NewCo, by which BHAC will transfer valuable intellectual property to NewCo, and the release is part of the consideration that BHAC received. Finally, although the Plan does not reorganize ESI, ESI is contributing contracts related to the management and operation of the Debtors' hotel properties, which ESI will assume and assign to NewCo, and resolving certain potential disputes over which debtor is entitled to certain assets. Accordingly, ESI is contributing assets that I understand are important to the Investor and the Sponsors as they reconstitute the Debtors' businesses in a new structure, and is waiving certain rights to ensure that the process is free of disputes.

35. The final category of Released Parties includes (i) the Debtors, (ii) each member of the Creditors' Committee, and (iii) parties related to the Released Parties.[5]

Exculpation

36. I understand that the exculpation provision in Sections 10.9 and 10.12 of the Plan limits liability arising out of postpetition acts and omissions of the Released Parties and certain parties related to them. Sections 10.9 and 10.12 of the Plan contain an express carve-out for willful misconduct and gross negligence.

Good Faith Purchaser

37. I incorporate herein my testimony regarding the auction of the Debtors' businesses and properties, proffered at the hearing on the Disclosure Statement, held in the

[5] Such parties include the Affiliated entities, present or former director, manager, officer, member, equity holder (and their respective Affiliates), employee, agent, financial advisor, partner, Affiliate, attorney, other professional advisor or representative (and their respective Affiliates) of the Released Parties other than ESI.

Bankruptcy Court on June 17, 2010. *See* June 17th Hearing Transcript. In that testimony, I detailed the auction process by which the Debtors selected the Sponsors to purchase the Debtors' businesses pursuant to the Plan, through a newly formed entity wholly owned by the Sponsors. I described the spirited and competitive bidding between the Sponsors and another bidder, and the Debtors' selection of the Sponsors as the winner, after the Sponsors submitted the highest bid, in the amount of $3.925 billion, and no other bidder was willing to top the bid. Based upon my participation in the auction, I believe that the Sponsors participated in the auction in good faith.

38. Subsequent to the auction, I participated in negotiations regarding the Investment Agreement, the Plan and the Disclosure Statement with the Sponsors, the Special Servicer and the Operating Advisor, and I believe that such negotiations were conducted at arms-length and in good faith. Accordingly, I believe that the Investor and the Sponsors agreed to purchase the Debtors, and their assets and property, in good faith, and that the Debtors have proposed the Plan in good faith.

I declare under penalty of perjury pursuant to 28 U.S.C. § 1746 that the foregoing is true and correct to the best of my knowledge, information, and belief.

Dated: July 19, 2010
New York, New York

/s/ Ari Lefkovits
Ari Lefkovits
Director
Lazard Freres & Co. LLC