

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

CANDLEWOOD HOTEL CO INC

CIK: **1022820** | IRS No.: **481188025** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-21583** | Film No.: **03999557**
SIC: **7011** Hotels & motels

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 - Q

(Mark One)

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

For the quarterly period ended September 30, 2003

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 000-21583

Candlewood Hotel Company, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

48-1188025

(I.R.S. Employer Identification No.)

8621 E. 21st Street North, Suite 200
Wichita, Kansas 67206

(Address of principal executive offices)

(316) 631-1300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act)

Yes / /

No / X /

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

<u>Class</u>	<u>Outstanding at November 14, 2003</u>
Common Stock, \$.01 par value	9,025,000 shares

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CANDLEWOOD HOTEL COMPANY, INC.

FORM 10 - Q
FOR THE QUARTER ENDED
SEPTEMBER 30, 2003

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****CANDLEWOOD HOTEL COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

(In thousands, except par value, stated value, and share data)

	September 30, 2003 (Unaudited)	December 31, 2002
Assets:		
Investment in hotels	\$ 107,596	\$ 100,720
Accumulated depreciation and amortization	(17,076)	(13,771)
Net investment in hotels	90,520	86,949
Cash and cash equivalents (including \$0 and \$357 of restricted cash, respectively)	9,394	9,270
Deposits	46,086	46,086
Accounts and other receivables	5,746	3,705
Investments in joint ventures	555	8,393
Deferred offering costs for redeemable preferred stock	2,154	-
Other assets	7,745	13,934
Total assets	\$ 162,200	\$ 168,337
Liabilities, Preferred Stock and Stockholders' Deficit:		
Mortgages and notes payable	\$ 66,029	\$ 58,932
Accounts payable and other accrued expenses	16,104	15,083
Deferred gain on sale of hotels	24,685	25,932
Redeemable preferred stock	107,000	-
Dividends in arrears on redeemable preferred stock	18,227	-
Other liabilities	65	98
Total liabilities	232,110	100,045
Redeemable, convertible, cumulative preferred stock ("Series A"), \$1,000 stated value, 65,000 shares authorized and outstanding, (including \$6,319 of dividends in arrears, respectively)	-	69,209
Redeemable, convertible, cumulative preferred stock ("Series B"), \$1,000 stated value, 42,000 shares authorized and outstanding, (including \$4,083 of dividends in arrears, respectively)	-	44,553
Stockholders' deficit:		

Common stock, \$.01 par value, 100,000,000 shares authorized, 9,025,000 issued and outstanding	90	90
Additional paid-in capital	16,254	22,197
Other comprehensive income	(182)	(140)
Accumulated deficit	(86,072)	(67,617)
	<u> </u>	<u> </u>
Total stockholders' deficit	(69,910)	(45,470)
	<u> </u>	<u> </u>
Total liabilities, preferred stock and stockholders' deficit	\$ 162,200	\$ 168,337
	<u> </u>	<u> </u>

See accompanying notes.

CANDLEWOOD HOTEL COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited) (In thousands, except share and per share data)

	For the Quarter Ended		For the Nine-Months Ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
Revenues:				
Hotel operations	\$ 35,219	\$ 32,493	\$ 94,621	\$ 94,866
Franchise and management fee income	1,363	803	3,753	2,918
Loss from joint ventures	(1,233)	(25)	(3,197)	(797)
	<u>35,349</u>	<u>33,271</u>	<u>95,177</u>	<u>96,987</u>
Total hotel operating revenues	35,349	33,271	95,177	96,987
Proceeds from sales of hotels	-	-	-	145,000
Deferred gain recognition on sales of hotels	405	406	1,215	1,044
	<u>35,754</u>	<u>33,677</u>	<u>96,392</u>	<u>243,031</u>
Operating costs and expenses:				
Hotel operating expenses	22,326	20,196	59,913	59,968
Corporate operating expenses	1,473	1,279	4,683	4,447
Rent expense on leased hotels	12,764	11,470	35,746	29,590
Depreciation and amortization	1,306	1,144	3,909	4,934
Impairment loss	-	-	3,645	8,604
Loss on extinguishments of debt	-	-	-	2,115
	<u>37,869</u>	<u>34,089</u>	<u>107,896</u>	<u>109,658</u>
Total operating costs and expenses	37,869	34,089	107,896	109,658
Cost of hotels sold	-	-	-	145,000
	<u>(2,115)</u>	<u>(412)</u>	<u>(11,504)</u>	<u>(11,627)</u>
Interest income	26	73	90	258
Interest expense	(4,636)	(1,172)	(7,041)	(6,127)
	<u>(6,725)</u>	<u>(1,511)</u>	<u>(18,455)</u>	<u>(17,496)</u>
Loss before preferred stock	(6,725)	(1,511)	(18,455)	(17,496)
Dividends	-	-	-	-
Preferred stock dividends	-	(2,023)	(5,097)	(6,002)
	<u>(6,725)</u>	<u>(3,534)</u>	<u>(23,552)</u>	<u>(23,498)</u>
Net loss available to common Stockholders	\$ (6,725)	\$ (3,534)	\$ (23,552)	\$ (23,498)
Net loss per share of common stock - basic and diluted	\$ (0.75)	\$ (0.39)	\$ (2.61)	\$ (2.60)

Weighted average shares outstanding - basic and diluted	9,025,000	9,025,000	9,025,000	9,025,000
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See accompanying notes.

CANDLEWOOD HOTEL COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	Nine-Months Ended	
	September 30, 2003	September 30, 2002
Cash flows from operating activities:		
Net loss before preferred stock dividends	\$ (18,455)	\$ (17,496)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,909	4,934
Loss from joint ventures	2,294	797
Deferred gain recognition on sales of hotels	(1,215)	(1,044)
Impairment loss	3,645	8,604
Loss on extinguishments of debt	-	2,115
Change in:		
Accounts and other receivables	(2,014)	(1,530)
Other assets	6,088	962
Accounts payable and other accrued expenses	5,003	(720)
Other liabilities	(33)	(647)
Net cash used in operating activities	(778)	(4,025)
Cash flows from investing activities:		
Proceeds from sales of hotels	-	145,000
Refund of guaranty deposit	-	10,452
Cash paid for security deposits	-	(16,000)
Change in cost of sales of hotels	(32)	-
Change in hotels completed	(1,716)	(8,096)
Contributions to joint ventures	(1,283)	-
Distributions from joint ventures	4,465	314
Purchase of intangible assets	(118)	(220)
Net cash provided by investing activities	1,316	131,450
Cash flows from financing activities:		
Proceeds from mortgages and notes payable	-	59,660
Payments on mortgages and notes payable	(414)	(192,172)
Net cash used in financing activities	(414)	(132,512)
Net increase (decrease) in cash and cash equivalents	124	(5,087)
Cash and cash equivalents at beginning of period	9,270	17,966

Cash and cash equivalents at end of period	\$	9,394	\$	12,879
Supplementary disclosure of cash flow information:				
Cash paid for interest	\$	4,449	\$	6,794

See accompanying notes.

CANDLEWOOD HOTEL COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Summary of Significant Accounting Policies

A. Organization and Basis of Presentation

The Company's current business of operating, franchising, owning and managing extended-stay hotels originated in November 1995, with the formation of Candlewood Hotel Company, L.L.C., a Delaware limited liability company ("Candlewood LLC"). The Company was incorporated in the State of Delaware in August 1996, and in November 1996, the Company succeeded to the business of Candlewood LLC and completed an initial public offering of its common stock (collectively, the "Reorganization").

The accompanying unaudited consolidated financial statements of Candlewood Hotel Company, Inc. (the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. The statements include the accounts of Candlewood Hotel Company, Inc. and its subsidiaries, including Candlewood LLC, which was the entity through which business was conducted until completion of the Reorganization, and various wholly-owned LLCs which own or lease certain hotels. Accordingly, certain information and footnotes required by generally accepted accounting principles for complete financial statements have been omitted. The accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals), which the Company believes are necessary for the fair presentation of the Company's financial position and results of operations. The condensed consolidated balance sheet data at December 31, 2002 was derived from the Company's audited financial statements. The interim financial statements should be read in conjunction with the Company's 2002 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for interim periods are not necessarily indicative of the results that may be expected for future periods or the entire year. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

The Company has entered into asset sale agreements to sell substantially all of its assets. If these asset sale transactions are approved by its stockholders, the Company plans to enter into a plan of dissolution (the "Plan of Dissolution") to liquidate its remaining assets. Pursuant to the Asset Purchase Agreement by and between the Company and Hospitality Properties Trust ("HPT") executed on October 27, 2003 (the "HPT Purchase Agreement"), the Company will sell its remaining twelve hotels to HPT. In connection with that transaction, the Company and HPT will also enter in a Termination Agreement pursuant to which the lease agreement governing 64 hotels to which HPT and the Company are parties will be terminated (see Note 5). In addition, pursuant to the Asset Purchase Agreement by and between the Company and Six Continents Hotels, Inc. ("SCH") executed on October 27, 2003 (the "SCH Purchase Agreement"), the Company will sell the rights to all the remaining Candlewood franchise agreements as well as certain trademarks and brand names to SCH.

After completion of the transactions contemplated by the Purchase Agreements (the "Sale Transactions"), the Company intends on entering into the proposed Plan of Dissolution whereby the Company will sell its remaining assets and wind up its corporate existence. The proceeds from the Asset Purchase Agreements and dissolution process will be paid to the Company's preferred and common stockholders according to the provisions of the proposed amendment to

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the Company's Certificates of Incorporation, Certificates of Designations for the Series A and Series B Preferred Stock, and the Delaware laws governing the process of dissolution. If the amendments to the Certificates of Designations are approved, the preferred stockholders will be entitled to receive the first \$25 million of liquidation proceeds; common stockholders would then receive \$500,000 of the remaining liquidation proceeds; and thereafter the preferred stockholders would receive 90% of any remaining liquidation proceeds and the common stockholders would receive 10% of any remaining liquidation proceeds, to the extent available.

The Board of Directors of the Company, by unanimous vote, has approved these proposed transactions. The Company filed a preliminary proxy statement with the Securities and Exchange Commission on November 6, 2003 seeking shareholder approval of the above proposed transactions. The accompanying unaudited consolidated financial statements do not reflect any adjustments relating to the above proposed transactions.

All majority-owned subsidiaries have been consolidated into the unaudited consolidated financial statements. All intercompany transactions have been eliminated.

B. Investment in Hotels

Investment in hotels is stated at cost and include the related furniture, fixtures and equipment. Once the Hotels are completed, depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to forty years. Maintenance and repairs are charged to operations as incurred.

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001. The Company evaluates hotels and investments in joint ventures for impairment when conditions indicate that it is probable that the sum of the expected future cash flows is less than the carrying value of the asset. Upon determination that an asset has been impaired, the carrying value of the asset is reduced to estimated fair value less costs to sell. For the nine-months ended September 30, 2003 and 2002, the Company recorded impairment losses of \$3.6 million (related to an investment in joint ventures) and \$8.6 million (related to investment in hotels), respectively.

C. Cash Equivalents

The Company considers all highly liquid assets with a maturity of three months or less when purchased to be cash equivalents.

D. Restricted Cash

Restricted cash represents cash that, under the terms of certain loan agreements, has been set aside as a condition of loan financing. These funds, which are held by the lenders, will be released to the Company upon achievement of certain operating criteria, as defined in the loan agreements.

E. Fair Value of Financial Instruments

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying values of the Company's financial instruments, which include cash and cash equivalents, accounts and other receivables, accounts payable and other accrued expenses, approximate fair values due to the short maturities of such instruments. The fair value of the Company's long-term debt, which approximates carrying value, is estimated based on the current rates offered to the Company for debt of the same remaining maturities.

F. Derivative Financial Instruments

In April 2002, the Company purchased an interest rate cap as part of the refinancing of mortgage debt with GMAC to manage interest rate risk at a cost of \$187,000. The Company requires that hedging derivative instruments be effective in reducing the interest rate risk exposure as they are designated. This effectiveness is essential for qualifying for hedge accounting available for only certain qualifying derivative instruments. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the derivative contract. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income each period until the instrument matures, is terminated, or assigned. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market through earnings each period. During 2003, the Company expects to reclassify to earnings approximately \$12,000 of amounts held in accumulated other comprehensive income. If a derivative instrument is terminated or the hedging transaction is no longer determined to be effective, amounts held in accumulated other comprehensive income are reclassified into earnings over the term of the future cash outflows on the related debt.

To determine the fair values of derivative instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments including most derivatives, standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost, and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

As of September 30, 2003, the Company's interest rate cap was reported at its fair value as other assets of \$2,100 with the remaining unamortized change in fair value since the purchase date of approximately \$182,000 recorded in accumulated other comprehensive loss in the equity section of the balance sheet. As a result of the above, the Company incurred a total comprehensive loss available to common shareholders of \$23.6 million (\$2.61 per weighted average common share) and \$23.6 million (\$2.62 per weighted average common share) for the nine-months ended September 30, 2003 and 2002, respectively.

G. Intangible Assets

Intangible assets of \$1.4 million include ownership rights, title and interest in the Candlewood Hotel name, costs for patents and trademarks and costs to obtain franchise agreements. These assets are being amortized using the straight-line method over a period of ten to twenty years and are included in other assets on the accompanying consolidated balance sheets.

H. Deferred Financing Costs

Deferred financing costs are costs incurred to obtain construction and permanent financing and are included in other assets on the accompanying consolidated balance sheets. These costs are amortized over the life of the related loan on a method, which approximates the level yield basis.

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I. Revenue Recognition

Room revenue and other revenues are recognized when earned. Recognition of franchise fee revenue is deferred until all material services or conditions relating to the respective franchise have been substantially performed or satisfied by the Company. Such revenue, when recognized, is included in franchise and management fee income on the accompanying consolidated statements of operations.

The Company's sales of hotels have been accompanied by a leaseback of the facilities under operating lease agreements. Such sales are recognized when the title passes to the buyer, generally upon the receipt of proceeds. The related profit is deferred and recognized in earnings over the remaining lease term.

J. Advertising

Advertising costs are expensed as incurred.

K. Income Taxes

The Company is taxed as a corporation as defined in subchapter "C" under the Internal Revenue Code for federal and state income tax purposes and accounts for any temporary differences under the asset and liability method.

L. Opening and Organization Costs

Opening costs are costs incurred prior to the opening of a hotel and include costs related to hiring and training of hotel personnel, such as travel, compensation and relocation. Organization costs relate to the formation of the Company and Subsidiaries. Such costs are expensed as incurred.

M. Investments in Joint Ventures

The Company has certain investments in joint ventures in which it owns 50% or less of the voting equity that it accounts for under the equity method of accounting.

N. Segment Reporting

The Company has two reportable segments, the operation of hotels and the sale of hotels. Information related to the Company's reportable segments for the nine-months ended September 30, 2003 and 2002, respectively, is as follows:

Nine-months ended September 30, 2003 (In thousands)	Operation of	Sale of	Total
	Hotels	Hotels	
Revenues from external customers	\$ 95,177	\$ –	\$ 95,177
Interest expense	3,672	–	3,672
Depreciation expense	3,327	–	3,327
Impairment loss	–	3,645	3,645
Segment loss	(7,481)	(2,430)	(9,911)
Hotels assets:			
Investment in hotels	107,596	–	107,596
Accounts receivable	5,188	–	5,188
Deferred gain on sale of hotels	–	24,685	24,685

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Nine-months ended September 30, 2002 (In thousands)	Operation of Hotels	Sale of Hotels	Total
Revenues from external customers	\$ 96,987	\$ –	\$ 96,987
Interest expense	6,127	–	6,127
Depreciation expense	4,363	–	4,363
Impairment loss	–	8,604	8,604
Segment loss	(3,061)	(7,560)	(10,621)
Hotels assets:			
Investment in hotels	100,182	–	100,182
Accounts receivable	5,504	–	5,504
Deferred gain on sale of hotels	–	26,403	26,403

The difference between segment loss and net loss is preferred stock dividends and corporate expenses not specific to the Company' s reportable segments.

O. Stock Options

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148"). SFAS 148 provides transition methods for entities that elect to adopt the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 requires disclosure of comparable information regarding the Company' s method of accounting for stock-based employee compensation for all interim periods. The Company accounts for its stock-based employee compensation, which is in the form of common share option grants, under the intrinsic method of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, no compensation expense is to be recognized for the common share option grants when the exercise price of the options equals the market price of the underlying shares at the date of grant. We did not recognize any compensation expense for the nine-months ended September 30, 2003 and 2002 related to options granted under APB 25.

P. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

Q. Reclassifications

Certain reclassifications of prior period amounts have been made to conform to the current period presentation. Such reclassifications have no effect on the Company' s operations or equity as originally presented.

Note 2: Mortgages and Notes Payable

A wholly owned subsidiary of the Company ("the Subsidiary") has a loan agreement with GMAC Commercial Mortgage Corporation. This Subsidiary owns 10 of the Company' s hotels. Interest on the loan is payable monthly, in arrears, on the first day of the calendar month. Interest is calculated at a variable rate per annum, adjusted monthly, at a rate equal to the 30-day LIBOR rate plus 4.25% (7.75% as of September 30, 2003). The debt has a LIBOR interest rate floor of 3.50%. As a result, the Company' s interest rate on this debt cannot go below 7.75%. Interest is payable monthly and the principal amount of

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the loan is payable monthly beginning in May 2003 and is calculated based on a 25-year amortization schedule using the prevailing interest rate as defined in the note. The loan matures in May 2005 and provides for one 12-month extension. Amounts borrowed under the loan agreement are secured by the 10 hotels, the land on which the hotels are constructed and certain funds deposited in demand deposit accounts assigned to GMAC. The Company, and certain other of the Company's wholly owned subsidiary limited liability companies ("LLCs"), guarantee the loan. At September 30, 2003, \$54.7 million was outstanding under this loan agreement.

In April 2002, the Company purchased an interest rate hedge to cap the 30-day LIBOR interest rate on the GMAC note. The interest rate is capped at 7.50% and the cap expires in May 2005 concurrent with the maturity of the note. Accordingly, the maximum interest rate throughout the term of the GMAC note cannot exceed 11.75% (7.50% LIBOR plus 4.25%).

The Company has also entered into a loan agreement with a financial institution for the financing of one of the Company's hotels. Interest on the loan is payable monthly, in arrears. Interest payments are calculated at a fixed rate based off the 10-year Treasury note at the time the loan was closed plus 3.08% (8.30% as of September 30, 2003). Principal payments are calculated based on a 25-year amortization schedule using the prevailing interest rate as defined in the note. The note matures in June 2011. The loan amount borrowed is secured by the hotel and the land on which the hotel is constructed, certain funds deposited in a demand deposit account assigned to the bank, as well as a guarantee by the Company and certain other of the Company's wholly-owned subsidiary LLCs. At September 30, 2003, approximately \$3.9 million was outstanding under this note.

On April 1, 2003, the Company assumed the obligations under a bank loan relating to the Company's Chicago, Illinois - Wheeling hotel, a hotel formerly owned by a joint venture investment of the Company. See "Note 3 - Investments in Joint Ventures." Interest on the loan is payable monthly, in arrears, beginning on the first full calendar month after the date of the agreement. Interest payments are calculated based on the prime interest rate plus 1% (5% as of September 30, 2003). Fixed principal payments are calculated based on a 20-year amortization schedule using the prevailing interest rate as defined in the note. The note originally matured on June 30, 2003, at which time we did not make the required principal payment. The loan was amended in September 2003 with a new maturity date of December 30, 2003. The loan amount borrowed is secured by the hotel and the land on which the hotel is constructed, certain funds deposited in a demand deposit account assigned to the bank, as well as a guarantee by the Company and certain other of the Company's wholly-owned subsidiary LLCs. At September 30, 2003, approximately \$7.4 million was outstanding under this note. If the proposed Sale Transaction is completed, we anticipate repaying this loan from the sale proceeds.

Note 3: Investments in Joint Ventures

As of September 30, 2003, the Company's net investment in joint ventures was approximately \$555,000. The difference between the amount at which the investment is carried in the Company's accounting records and the amount of the underlying equity in the net assets of the investee is amortized into income from joint ventures over the contractual life of the respective joint venture entity. As of September 30, 2003, this amount was approximately \$100,000 and is included in investments in joint ventures on the accompanying consolidated balance sheets. For the quarters ended September 30, 2003 and 2002, equity (loss) income in joint ventures of approximately (\$1.2 million) and \$439,000, respectively, was recorded before recognition of the carrying value difference of approximately (\$1,000) and (\$464,000), respectively. For the quarter ended September 30, 2002, the Company received distributions from its joint ventures of \$200,000. There were no distributions made to the Company during the quarter ended September 30, 2003.

The Company had one significant joint venture that was formed in 1999 with Boston Capital Institutional Advisors ("Boston Capital") and Mass Mutual in which the Company held a 50% ownership interest. In total, eight hotels were developed by the joint venture and hotel operations for the joint venture

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commenced in 2000. On April 1, 2003, pursuant to a prior agreement, the Company assumed ownership of the Chicago, Illinois-Wheeling hotel from the joint venture including 100% of all assets, liabilities and ownership interests. In total, the Company assumed \$1.3 million of total liabilities in excess of total assets. This property was consolidated into the Company's financial statements beginning on April 1, 2003. In July 2003, the joint venture ceased its hotel operations when the seven remaining hotels were sold in a sale-leaseback transaction with Hospitality Properties Trust. See "Note 5 - Sale / Leaseback." In accordance with the profit and loss allocation terms of the joint venture agreement, for the nine-months ended September 30, 2003, the Company recorded all of the \$2.3 million net pre-tax loss of the joint venture.

The following is unaudited condensed financial information for the joint venture as of September 30, 2003 and 2002:

Nine-months ended September 30,	2003	2002
(In thousands)		
Total revenue	\$ 9,713	\$ 15,472
Hotel operating expenses	7,227	8,213
Depreciation and amortization	1,272	2,234
Loss on extinguishments of debt	573	-
Loss on sale of hotels	136	-
Interest expense, net	2,822	4,378
Net pre-tax (loss)	\$ (2,317)	\$ 647

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("Interpretation 46"), which required the consolidation of an entity by an enterprise (i) if that enterprise, known as a "primary beneficiary", has a variable interest that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both and (ii) if the entity is a variable interest entity, as defined by Interpretation 46. An entity is a variable interest entity if (a) the total equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (b) the equity investors do not have the characteristics of a controlling financial interest in the entity. Interpretation 46 applies immediately to all variable interest entities created after January 31, 2003. For variable interest entities created by public companies before February 1, 2003, Interpretation 46 is applicable for the first reporting period that ends after December 15, 2003. The initial determination of whether an entity is a variable interest entity shall be made as of the date at which a primary beneficiary becomes involved with the entity and reconsidered as of the date one of three triggering events described by Interpretation 46 occur. We do not believe that the adoption of this interpretation will have a material effect on our financial statements.

Note 4: Redeemable, Convertible, Cumulative Preferred Stock

General

The Company has authorized "blank check" preferred stock in the amount of 5,000,000 shares at \$.01 par value per share. The stock may be issued with such voting powers and such designations, preferences, privileges and other special rights as designated by the Board of Directors. At the date of issuance of any of the preferred stock, the Company determines whether the stock is redeemable and the appropriate classification of the stock on the balance sheet. At September 30, 2003, as more fully described below, the Company had 65,000 and 42,000 shares, respectively, of Series A and Series B redeemable preferred stock issued and outstanding.

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Preferred Stock Offerings

In October 1997, the Company completed a \$65.0 million private placement of 65,000 shares of “Series A” Redeemable, Convertible, Cumulative Preferred Stock at an offering price of \$1,000 per share (“Stated Value”). The net proceeds to the Company were approximately \$61.3 million, after deducting commissions and expenses of \$3.7 million.

On August 3, 1998, the Company completed the private placement of \$42.0 million of its “Series B” Redeemable, Convertible, Cumulative Preferred Stock and warrants to purchase its common stock. In total, 42,000 shares of Series B Preferred Stock were issued at an offering price of \$1,000 per share (“Stated Value”). Series B preferred stockholders were also issued, at no additional cost, warrants to purchase 336,000 shares of common stock at \$12.00 per share. These warrants expire on July 13, 2005. The net proceeds to the Company were approximately \$39.3 million, after deducting commissions and expenses of \$2.7 million.

The Series A and Series B Preferred Stock accumulate dividends at a rate of 7.5% with dividend payments made quarterly, upon approval of the board of directors, and in preference to any dividend on the Company’s Common Stock. These payments are approximately \$2.5 million per quarter. The Company has not made the last eight scheduled preferred stock dividend payments. Pursuant to the provisions of the certificate of designation for the Series A and Series B Preferred Stock, the conversion price (i.e. the price at which the Preferred Stock may convert into Common Stock) was reduced in August 2003 to \$7.00 per share to reflect the Company’s decision to forego payment of its May 2003 and August 2003 preferred stock dividend payments. The Company intends to assess its cash position on a quarterly basis and will likely elect to forego additional scheduled dividend payments on the preferred stock. The reduction in the conversion price below the \$7.50 threshold in effect for the Series B Preferred Stock has resulted in an increase in the dividend rate on the Series B preferred stock from 7.5% to 12.0%. No such provision applies to the Series A preferred stock, however, the failure to make future dividend payments will result in a further reduction in the conversion price of the Series A preferred stock. As of September 30, 2003, the Company had approximately \$18.2 million of accumulated unpaid dividends in arrears, which have been accrued and recorded as an increase to the carrying amount of the Series A and Series B preferred stock.

Pursuant to a mandatory redemption clause in the Certificates of Designation for the Series A and Series B Cumulative Convertible Preferred Stock, the Company is required to redeem the Series A and Series B Preferred Stock in September 2004. The mandatory redemption amount is equal to \$107 million plus unpaid dividends. As of September 30, 2003, the mandatory redemption amount was approximately \$125.2 million. If the Company fails to redeem the Preferred Stock when due, it will be required to issue to each holder of Preferred Stock on such date, and on each three month anniversary thereafter, warrants to purchase 25% of the number of shares of Common Stock into which such holder’s outstanding shares of Preferred Stock would be convertible on such date. The warrants would be immediately exercisable at a purchase price of \$.01 per share of Common Stock.

In the event the Company liquidates, the holders of the Series A and Series B Preferred Stock are entitled to receive a payment equal to the stated value of their shares, plus any accrued but unpaid dividends (the “Liquidation Amount”), prior to any distribution or payment to the holders of the Common Stock. As of September 30, 2003, the Liquidation Amount was \$125.2 million, including \$18.2 million of unpaid dividends. Alternatively, the holders of the Series A and Series B Preferred Stock may convert any or all of their shares into shares of Common Stock. In the event of a corporate transaction that constitutes a change of control, the Company is required to offer to redeem all of the outstanding shares of Series A and Series B Preferred Stock for a price equal to the greater of the Liquidation Amount or 175% of the stated value of the shares. As of September 30, 2003, one hundred seventy five percent of the stated value of the shares was \$187.3 million. If the Company does not redeem the Preferred Stock upon a change of control, the conversion price of the Preferred Stock will be reduced to the lower of the then applicable conversion price or the market price of the Common Stock on the redemption date divided by 1.75, provided that the conversion price will not be reduced to an amount less than the par value of the Common Stock.

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Certain of the Preferred Stockholders have voting rights related to the nomination and election of directors as defined in a stockholders agreement. Each Preferred Stockholder will vote together with the Common Stockholders as a single class, on an as-converted basis, on all matters to be approved by the Common Stockholders. For certain actions, approval of two-thirds of the shares owned by Preferred Stockholders, as a single class, is required.

The carrying amount of the redeemable preferred stock is being increased by periodic accretions using the interest method, so that the carrying amount will equal the mandatory redemption amount at the mandatory redemption date. For the quarter and nine-months ended September 30, 2003, approximately \$507,000 and \$1.5 million, respectively, were recorded as an increase to the carrying value of the preferred stock.

In July 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS 150 generally requires liability classification of mandatorily redeemable preferred stock. The liability for the mandatorily redeemable preferred shares should be recorded at fair value. Any difference between fair value and the redemption value would be accreted through interest expense. Issuance costs previously recognized as a reduction to the carrying amount of the mandatorily redeemable preferred shares would be reclassified to a deferred charge (asset account) and amortized. Dividends on mandatorily redeemable preferred shares and any accretion on the preferred shares would be classified as a liability and included in interest expense. The Company adopted SFAS 150 on July 1, 2003. As a result of the adoption of SFAS 150, the Company reflected its redeemable Series A and Series B Preferred Stock at its redemption amount of \$107 million and the related dividends in arrears of \$18.2 million in liabilities on the September 30, 2003 balance sheet. The remaining unamortized preferred stock issuance costs of \$2.2 million are reflected in assets as a deferred charge on the September 30, 2003 balance sheet and are amortized into interest expense. In addition, for the three and nine months ended September 30, 2003, accrued but unpaid dividends on the Series A and Series B Preferred Stock of \$2.9 million and the related amortization of the preferred stock issuance costs totaling \$507,000 were included in interest expense in the statement of operations.

Note 5: Sale / Leaseback

As of September 30, 2003, the Company had completed four separate sale-leaseback transactions with HPT. These transactions were completed in stages commencing in December 1997 with the most recent transaction completed in April 2002. In July 2003, as part of the dissolution of the Company's joint venture with Boston Capital and Mass Mutual, the joint venture sold all seven of its hotels to HPT. These hotels were then leased to the Company. As a result of this transaction, as of September 30, 2003, the total number of hotels leased by the Company from HPT increased to 64.

Terms of the HPT sales agreement were all cash at the close of escrow for each hotel sold. Each of the hotels sold has been leased back to a wholly owned subsidiary of Candlewood pursuant to the terms of a master operating lease agreement executed in April 2002, which superceded the previous operating lease (the "previous lease"). This lease expires in December 2018 and may be renewed in certain circumstances and at the election of the Company for up to three 15-year periods. The master lease agreement was amended in July 2003 (See Note 3) to include the seven additional hotels with the lease term remaining the same (expiration in December 2018). The lease calls for monthly lease payments of approximately \$4.3 million and requires the Company to place a security deposit with HPT for each property equal to one year's lease payments. HPT did not require an additional security deposit for the lease of the seven new hotels. The security deposit will be released to the Company at the end of the lease term.

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The terms of the amended lease agreement with HPT requires the Company to guarantee the payment of rent for the duration of the lease and, as a guarantor, to maintain a minimum net worth in an amount at least equal to the aggregate of one year's minimum rent (\$52 million). At September 30, 2003, the Company's net worth as defined in the agreement was \$53.2 million. The Company expects that its net worth will decline during the quarter ended December 31, 2003, and cannot be certain that its net worth, as defined, will not decline below \$52 million. If the lease agreement is cancelled and the Company loses its rights as tenants under the applicable hotels, the Company may not be able to continue its operations.

The previous lease agreement provided for the Company to guarantee the payment of rent until defined operating cash flows exceed the annual lease payments by 150% for 12 consecutive months. In connection with this obligation, the Company was required to place deposits with HPT equal to approximately 5% of the sales price, upon the initial closing of each transaction. These deposits were charged to cost of sales as the hotels were sold. As part of the newly executed lease, the Company was refunded the remaining balance of the guaranty deposit, which was recorded as an additional deferred gain on sale of hotels and will be recognized as income over the remaining lease term. In addition, the new lease requires the Company to guarantee the payment of rent for the duration of the lease. In total, as of September 30, 2003, the Company had sold 57 hotels for \$434.8 million of hotels with a total deferred gain of \$32.8 million, which includes the return of the guaranty deposits to the Company. Such gain has been deferred and is being recognized in income as noted in the Company's accounting policies. See "Note 1 - Summary of Significant Accounting Policies." For the quarters ended September 30, 2003 and 2002, respectively, the Company recognized approximately \$405,000 and \$406,000 of deferred gain into income. As of September 30, 2003, the Company has recognized a total of \$1.2 million of deferred gain into income. Sale proceeds, net of the deferred gain and related cost of the hotels sold are presented on the consolidated statements of operations.

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

The following discussion should be read in conjunction with our Consolidated Financial Statements and notes thereto.

Proposed Asset Sale

We have entered into asset sale agreements to sell substantially all of our assets. If these asset sale transactions are approved by our stockholders, we plan to enter into a plan of dissolution (the "Plan of Dissolution") to liquidate our remaining assets. Pursuant to the Asset Purchase Agreement by and between Candlewood and Hospitality Properties Trust ("HPT") dated October 27, 2003 (the "HPT Purchase Agreement"), we will sell our remaining twelve hotels to HPT. In connection with that transaction, Candlewood and HPT will also enter in a Termination Agreement pursuant to which the lease agreement governing 64 hotels to which HPT and Candlewood are parties will be terminated. In addition, pursuant to the Asset Purchase Agreement by and between Candlewood and Six Continents Hotels, Inc. ("SCH"), a subsidiary of Intercontinental Hotels Group, PLC, dated October 27, 2003 (the "SCH Purchase Agreement" and, together with the HPT Purchase Agreement, the "Purchase Agreements"), we will sell our rights to all existing Candlewood franchise agreements as well as certain trademarks and brand names to SCH.

After completion of the transactions contemplated by the Purchase Agreements, we intend to enter into a Plan of Dissolution whereby we will sell our remaining assets and wind up our corporate existence. The liquidation proceeds will be paid to our preferred and common stockholders according to the provisions of the proposed amendments to our Restated Certificate of Incorporation, Certificates of Designations for our Series A and Series B Preferred Stock, and the Delaware laws governing the process of dissolution. If the amendments to our Certificates of Designations are approved, our preferred stockholders will be entitled to receive the first \$25 million of liquidation proceeds; our common stockholders would then receive \$500,000 of the remaining liquidation proceeds; and thereafter our preferred stockholders would receive 90% of any remaining liquidation

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proceeds and our common stockholders would receive 10% of any remaining liquidation proceeds, to the extent available.

Our Board of Directors, by unanimous vote, has approved these proposed transactions. We filed a preliminary proxy statement with the Securities and Exchange Commission on November 6, 2003 seeking our shareholder approval of the above proposed transactions. Stockholders are encouraged to read the proxy statement in its entirety.

General

Candlewood operates, franchises, owns and manages Candlewood Suites and Cambridge Suites hotels (“Candlewood hotels”) to serve extended-stay business and personal travelers. At December 31, 2002, we had a total of 77 company-operated hotels (which is comprised of owned, leased and joint venture hotels), 30 franchised hotels and two managed hotels located in 34 states. At September 30, 2003, we had a total of 77 company-operated hotels, 34 franchised hotels and 17 managed hotels located in 34 states. In addition, at September 30, 2003, we had five franchise hotels under construction and 20 franchise agreements for hotels not yet under construction, which are subject to a variety of conditions.

We classify our hotels into five categories: owned, leased, managed, joint venture and franchised. Owned hotels are those hotels that we have independently developed or acquired and own. Leased hotels are those hotels that we previously sold and currently lease from a third party. Managed hotels are those hotels that we manage for a third party, but do not lease or own. Joint venture hotels are those hotels that we developed and own with our joint venture partners. Franchised hotels are those hotels developed and owned by third parties that utilize one of our franchise brands, Candlewood Suites or Cambridge Suites. The following table sets forth our property portfolio at September 30, 2003 and 2002:

	Number of Hotels			Number of Rooms		
	September 30,		Increase / (Decrease)	September 30,		Increase / (Decrease)
2003	2002	2003		2002		
Owned	12	11	1	1,443	1,300	143
Leased	64	57	7	7,776	6,888	888
Managed	17	2	15	2,024	203	1,821
Joint Venture	1	9	(8)	128	1,159	(1,031)
Franchised	34	29	5	3,326	2,959	367
Total	128	108	20	14,697	12,509	2,188

At September 30, 2003, we managed 17 hotels, 15 Summerfield Suites hotels owned by HPT and two hotels independently owned by our Chief Executive Officer, the Cambridge Suites by Candlewood and the Hotel at Old Town, both located in Wichita, Kansas. On October 6, 2003, we ceased management of the 15 Summerfield Suites hotels (1,821 rooms) upon termination of a management agreement with HPT. Our revenues for managed hotels consist primarily of management fees that are based on a percentage of gross revenues, operating profits, cash flow or a combination thereof. These revenues are included in franchise and management fee income in our consolidated statements of operations.

Our consolidated statements of operations include revenues and expenses for only those hotels owned or leased by consolidated subsidiaries of Candlewood Hotel Company, Inc. (owned and leased hotels). We refer to these hotels collectively as our corporate hotels. Revenues and expenses from franchise hotels and unconsolidated subsidiary hotels (joint venture hotels accounted for under the equity method of accounting) are not included in our revenues and expenses. Franchise fees, royalty fees and management fees from franchised,

managed and joint venture hotels are included in franchise and management fee income in our consolidated statements of operations. Equity in income (loss) from joint venture hotels is included in loss from joint ventures in our consolidated statements of operations.

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We have sold and leased back 57 hotels from Hospitality Properties Trust (“HPT”), not including the seven hotels our joint venture sold to HPT in July 2003 which we subsequently leased back. The provisions of the transactions allow us to operate, as lessee, over a defined lease term, hotels that we developed. Our results from operations reflect these transactions. As a result of the sale-leaseback transactions, we have recorded rent expense on the hotels leased back from HPT. Since these hotels are leased and not owned, the financial statements do not reflect any depreciation and amortization or interest expense for these hotels after the date of sale. The proceeds from the sales of the hotels is recorded net of the deferred gain on sale. The gain is deferred and not recognized into earnings until certain operating performance levels are achieved. See Note 5 to Consolidated Financial Statements.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures. We believe that the following critical accounting policies involve significant judgments and estimates used in the preparation of our consolidated financial statements.

Impairment of Long-Lived Assets

We periodically evaluate our long-lived assets, including our investments in real estate for impairment indicators in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, “Accounting for Impairment or Disposal of Long-Lived Assets.” The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions and legal factors. Future events could occur which would cause us to conclude that impairment indicators exist and an impairment loss is warranted.

Sale / Leaseback of Hotels

We have accounted for our sale-leaseback of hotels in accordance with SFAS No. 98, “Accounting for Leases.” Management is required to make estimates and judgments to determine if the resulting lease agreement for the leaseback of hotels qualifies for classification as an operating lease under SFAS No. 98.

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Depreciation of Investment in Hotels

We depreciate our investment in hotels over a 40-year useful life, which is a judgmental determination.

Fair Value of Financial Instruments

The valuation of financial instruments under SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," and derivative financial instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires us to make estimates and judgments that affect the fair value of the instruments. Where possible, we base the fair values of our financial instruments on listed market prices and third party quotes. Where these are not available, we base our estimates on other factors relevant to the financial instrument.

Results of Operations

Comparison of fiscal quarters ended September 30, 2003 and 2002

Hotel Operations

Hotel Operations Revenue

Hotel operations revenue, which includes room revenue and other revenue (e.g. guest telephone and sales of products from the Candlewood Cupboard), was \$35.2 million for the quarter ended September 30, 2003, compared to \$32.5 million for the quarter ended September 30, 2002. The increase in revenue is a result of revenues from the seven additional hotels leased from HPT in July 2003 and the hotel acquired from the Boston Capital joint venture in April 2003. The following table sets forth the operating statistics for our corporate hotels for the quarters ended September 30, 2003 and September 30, 2002:

	For the quarter ended		
	September 30,		
	2003	2002	Change
Occupancy	76.7 %	77.7 %	(1.0 %)
Average Daily Rate	\$ 53.84	\$ 53.85	\$ (0.01)
Revenue per available room	\$ 41.29	\$ 41.86	\$ (0.57)

Average occupancy rate, which is determined by dividing the number of guestrooms occupied on a daily basis by the total number of guestrooms available for the period, was 76.7% for the quarter ended September 30, 2003, compared to 77.7% for the quarter ended September 30, 2002. Occupancy rates for the quarter ended September 30, 2003 were negatively impacted by the continued slowdown in the economy.

The average daily room rate for corporate hotels for the quarter ended September 30, 2003 was \$53.84, compared to \$53.85 for the quarter ended September 30, 2002. Average daily room rates are determined by dividing room revenue by the number of guestrooms occupied on a daily basis for the applicable period. Other factors that influence average daily room rates include higher rates for our one-bedroom suites and higher rates in certain hotel locations. It is our practice to continuously review individual markets to assess the impact of competition on local supply and demand and establish room rates that balance occupancy in an attempt to maximize revenue.

Revenue per available room ("RevPAR"), calculated as the average occupancy rate multiplied by the average daily rate, was \$41.29 for the quarter ended September 30, 2003, compared to \$41.86 for the quarter ended September 30, 2002, a 1.4% decrease. This decrease is primarily due to the lower average

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occupancy rate we experienced in the quarter ended September 30, 2003 compared to September 30, 2002.

Hotel Operating Expenses

Hotel operating expenses for the quarter ended September 30, 2003 totaled \$22.3 million, compared to \$20.2 million for the quarter ended September 30, 2002. Hotel operating expenses consist of all expenses directly applicable to the operation of the hotels, including corporate allocations for various operating, marketing and accounting functions. The largest portion of hotel operating expenses consisted of salaries, wages and fringe benefits. The balance of hotel operating expenses was comprised of normal operating items, such as utilities, property taxes, insurance, supplies, promotional materials, maintenance items and similar expenses. The increase in hotel operating expenses is primarily due to operating costs for the seven additional hotels leased from HPT in July 2003 and the hotel acquired from the Boston Capital joint venture in April 2003, partially offset by lower corporate allocations and advertising costs.

Rent Expense on Leased Hotels

Rent expense on the 64 leased hotels during the quarter ended September 30, 2003 was \$12.8 million, compared to \$11.5 million for the 57 hotels leased during the quarter ended September 30, 2002. Rent expense is comprised of two elements, a base fixed rent and a contingent rent. Contingent rent expense is a variable expense based on a property achieving improved year over year revenue growth and is calculated on an individual property basis. The increase in rent expense is due to an increase in base rent as a result of the leasing of seven additional hotels in July 2003.

Hotel Depreciation and Amortization

Depreciation and amortization expense applicable to hotel operations (e.g., building, furniture, fixtures and equipment) for the quarter ended September 30, 2003 totaled \$1.1 million, compared to \$955,000 for the quarter ended September 30, 2002. The increase in depreciation and amortization expense is the result of higher leasehold improvement depreciation expense as a result of increased capital expenditures at our leased hotels, the increased number of leased hotels and the acquisition of the Chicago, Illinois - Wheeling hotel in April 2003. Other than for leasehold improvements we make as tenant of the leased hotels, we do not record depreciation and amortization expense for properties that are leased.

Corporate Operations

Other Income

Franchise and management fee income for the quarter ended September 30, 2003 totaled \$1.4 million, compared to \$803,000 for the quarter ended September 30, 2002. The increase in franchise and management fee income is primarily due to the increase in management fees as a result of the 15 Summerfield Suites hotels we managed from late April 2003 through September 2003.

Loss from joint ventures for the quarter ended September 30, 2003 totaled \$1.2 million, compared to \$25,000 for the quarter ended September 30, 2002. This loss is primarily due to the write-off of certain costs associated with the dissolution of the Boston Capital joint venture in July 2003.

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Corporate Operating Expenses

Corporate operating expenses for the quarter ended September 30, 2003 totaled \$1.5 million, compared to \$1.3 million for the quarter ended September 30, 2002, and included all expenses not directly related to the operations of specific hotels. The largest portion of corporate operating expenses consisted of salaries, wages and fringe benefits. The balance of other corporate operating expenses was comprised of normal operating costs, such as office space lease, travel, utilities, advertising, professional fees and similar expenses. The increase in corporate operating expense is primarily due to legal and professional fee expenses incurred in our evaluation of various strategic and financing alternatives, partially offset by lower franchise costs and other general corporate expenses.

Corporate Depreciation and Amortization

Depreciation and amortization applicable to corporate operations for the quarter ended September 30, 2003 totaled \$190,000, unchanged from the quarter ended September 30, 2002. Depreciation and amortization reflects depreciation and amortization of intangible assets (e.g. patents, trademarks), leasehold improvements and furnishings in our corporate office, and depreciation of financial system hardware, software and peripheral equipment.

Interest Income and Expense

Interest income for the quarter ended September 30, 2003 was \$26,000, compared to \$73,000 for the quarter ended September 30, 2002. Interest income for the quarter ended September 30, 2003 resulted primarily from the temporary investment of cash provided by operations and cash from the dissolution of our joint venture with Boston Capital and Mass Mutual. For the quarter ended September 30, 2002, interest income resulted primarily from the temporary investment of cash provided by operations and the April 2002 sale-leaseback transaction of 21 hotels. The decrease in interest income for the quarter ended September 30, 2003 is largely due to lower cash levels and lower investment rate yields.

Interest expense for the quarter ended September 30, 2003 was \$4.6 million, compared to \$1.2 million for the quarter ended September 30, 2002. The increase in interest expense is due to the inclusion in interest expense of \$3.4 million of accrued dividends and accretion of deferred offering costs on our redeemable preferred stock as a result of the adoption of SFAS No. 150 on July 1, 2003 (see "Impact of New Accounting Standards" below) and higher debt levels resulting from the assumption of the loan on the Wheeling, Illinois property from the Boston Capital joint venture.

Sales of Hotels

In July 2003, our Boston Capital joint venture sold all seven of its hotels to HPT. Concurrent with this sale, we agreed to lease the seven hotels from HPT. As a result, as of September 30, 2003, we leased a total of 64 hotels from HPT. We have sold nearly all of our hotels that are available for sale-leaseback transactions. A deferred gain was recorded on the sales (other than the sale by the joint venture), a portion of which has been recorded in income in the quarters ended September 30, 2003 and September 30, 2002. The following table sets forth the rent expense and deferred gain recognized into earnings related to our leased hotels for the quarters ended September 30, 2003 and September 30, 2002 (in thousands):

	For the quarter ended	
	September 30,	
	2003	2002
Rent expense on leased hotels	\$ 12,764	\$ 11,470
Gain recognized into earnings	\$ 405	\$ 406

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Comparison of nine-months ended September 30, 2003 and 2002

Hotel Operations

Hotel Operations Revenue

Hotel operations revenue was \$94.6 million for the nine-months ended September 30, 2003, compared to \$94.9 million for the nine-months ended September 30, 2002. The decrease in revenue is a result of the slowdown in the economy and a reduction in business travel, partially offset by revenues from the seven additional hotels leased from HPT in July 2003 and the hotel acquired from the Boston Capital joint venture in April 2003. The following table sets forth the operating statistics for all our corporate hotels for the nine-months ended September 30, 2003 and September 30, 2002:

	For the nine-months ended		
	September 30,		
	2003	2002	Change
Occupancy	73.0 %	76.3 %	(3.3 %)
Average Daily Rate	\$ 53.64	\$ 54.04	\$ (0.40)
Revenue per available room	\$ 39.17	\$ 41.23	\$ (2.06)

The average occupancy rate for our corporate hotels was 73% for the nine-months ended September 30, 2003, compared to 76.3% for the nine-months ended September 30, 2002. The average daily room rate for corporate hotels for the nine-months ended September 30, 2003 was \$53.64, compared to \$54.04 for the nine-months ended September 30, 2002. Revenue per available room was \$39.17 for the nine-months ended September 30, 2003, a 5% decrease from a year ago. This decrease is due to the lower average occupancy rate for the nine-months ended September 30, 2003 compared to the nine-months ended September 30, 2002.

Hotel Operating Expenses

Hotel operating expenses for the nine-months ended September 30, 2003 totaled \$59.9 million, compared to \$60.0 million for the nine-months ended September 30, 2002. For 2003, lower corporate allocations and advertising costs have been offset by higher operating costs for the seven additional hotels leased from HPT in July 2003, the hotel acquired from the Boston Capital joint venture in April 2003 and the full nine-month impact of operating costs for the San Antonio, Texas hotel acquired in March 2002.

Rent Expense on Leased Hotels

Rent expense on the 64 leased hotels for the nine-months ended September 30, 2003 was \$35.7 million, compared to \$29.6 million for the nine-months ended September 30, 2002. The increase in rent expense is due to an increase in base rent as a result of having leased seven additional hotels in July 2003 and the full nine-month impact of the sale and leaseback of 21 hotels in April 2002.

Hotel Depreciation and Amortization

Depreciation and amortization expense applicable to hotel operations for the nine-months ended September 30, 2003 totaled \$3.3 million, compared to \$4.4 million for the nine-months ended September 30, 2002. The decrease in depreciation and amortization expense is a result of the sale and leaseback of 21 hotels in April 2002.

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Corporate Operations

Other Income

Franchise and management fee income for the nine-months ended September 30, 2003 totaled \$3.8 million, compared to \$2.9 million for the nine-months ended September 30, 2002. The increase in franchise and management fee income is primarily due to the increase in management fees as a result of the 15 Summerfield Suites hotels we began managed from late April 2003 through September 2003.

Loss from joint ventures for the nine-months ended September 30, 2003 totaled \$3.2 million, compared to \$797,000 for the nine-months ended September 30, 2002. This loss is due to the reduced profitability of the joint venture hotels as a result of the slowdown in the economy and the reduction in business travel, the write-off of certain costs associated with the dissolution of the joint venture in July 2003, our purchase of the Chicago, Illinois - Wheeling joint venture hotel in April 2003, and the amortization of the difference between the amount at which the Boston Capital joint venture investment was carried on our accounting records and the amount of the underlying book equity in the net assets of the joint venture. This difference was primarily comprised of carrying costs incurred from the time we purchased the land until the hotel was contributed to the joint venture.

Corporate Operating Expenses

Corporate operating expenses for the nine-months ended September 30, 2003 totaled \$4.7 million, compared to \$4.4 million for the nine-months ended September 30, 2002. For the nine-months ended September 30, 2003, expenses incurred in our evaluation of various strategic and financing alternatives were offset by lower franchise costs and other general corporate expenses.

Corporate Depreciation and Amortization

Depreciation and amortization applicable to corporate operations for the nine-months ended September 30, 2003 totaled \$583,000, compared to \$572,000 for the nine-months ended September 30, 2002.

Interest Income and Expense

Interest income for the nine-months ended September 30, 2003 was \$90,000, compared to \$258,000 for the nine-months ended September 30, 2002. Interest income for the nine-months ended September 30, 2003 resulted primarily from the temporary investment of cash provided by operations and cash from the dissolution of our joint venture with Boston Capital and Mass Mutual. For the nine-months ended September 30, 2002, interest income resulted primarily from the temporary investment of cash provided by operations and proceeds from the April 2002 sale-leaseback transaction. The decrease in interest income for the nine-months ended September 30, 2003 is largely due to lower cash levels and lower investment rate yields.

Interest expense for the nine-months ended September 30, 2003 was \$7.0 million, compared to \$6.1 million for the nine-months ended September 30, 2002. The increase in interest expense is due to the inclusion in interest expense of \$3.4 million of accrued dividends and accretion of deferred offering costs on our redeemable preferred stock as a result of the adoption of SFAS No. 150 on July 1, 2003 (see "Impact of New Accounting Standards" below), partially offset by lower debt levels as a result of the April 2002 sale-leaseback transaction.

Sales of Hotels

As of September 30, 2003, we had sold to and leased back from HPT 57 hotels, 21 of which were sold during the nine-months ended September 30, 2002. A deferred gain was recorded on the sales, a portion of which has been recorded in income in the nine-months ended September 30, 2003 and September 30, 2002. In July 2003, the joint venture sold all seven of its hotels to HPT. Concurrent with this sale, we agreed to lease the seven hotels from HPT. As a result, as of September 30, 2003, we leased a total of 64 hotels from HPT. The following table sets forth the rent expense and deferred gain recognized into earnings related to our leased hotels for the nine-months ended September 30, 2003 and September 30, 2002 (in thousands):

	For the nine-months ended September 30,	
	2003	2002
Rent expense on leased hotels	\$ 35,746	\$ 29,590
Gain recognized into earnings	\$ 1,215	\$ 1,044

Liquidity and Capital Resources

We had cash and cash equivalents of \$9.4 million at September 30, 2003, compared to \$12.9 million at September 30, 2002. Net cash used in operating activities totaled \$778,000 for the nine-months ended September 30, 2003, compared to \$4 million of cash used in operating activities for the nine-months ended September 30, 2002. For the nine-months ended September 30, 2003, we recorded a net loss from operations of \$18.5 million, including \$3.6 million of non-cash impairment loss, \$3.9 million of non-cash depreciation and amortization expense, \$2.3 million of loss on investment in joint ventures and \$1.2 million of non-cash deferred gain income on hotels sold. Sources of cash included a \$6.1 million decrease in other assets primarily due to the reimbursement of hotel expenditures from the furniture, fixtures and equipment (“FF&E”) cash reserve accounts, which we used in operations, and a \$5.0 million increase in accounts payable and other accrued expenses. The FF&E reserve accounts are stipulated in our lease and lending agreements and require us to make monthly contributions equal to approximately 5.0% of total gross hotel revenues. The cash reserved is for replacement and refurbishment of hotel furniture and fixtures. Uses of cash for the nine-months ended September 30, 2003 consisted primarily of a \$2 million increase in accounts and other receivables. For the nine-months ended September 30, 2002, we recorded a net loss from operations of \$17.5 million including \$8.6 million of non-cash impairment loss, \$2.1 million of loss on extinguishments of debt, \$4.9 million of non-cash depreciation and amortization expense, \$797,000 of loss on investment in joint ventures and \$1.0 million of non-cash deferred gain income on hotels sold. Sources of cash for the nine-months ended September 30, 2002 included a \$1.0 million decrease in other assets primarily due to the reimbursement of hotel expenditures from the FF&E cash reserve accounts, which we used in operations. Uses of cash for the nine-months ended September 30, 2002 included a \$1.5 million increase in accounts and other receivables, a \$720,000 decrease in accounts payable and other accrued expenses and a \$647,000 decrease in other liabilities.

Net cash provided by investing activities for the nine-months ended September 30, 2003 totaled \$1.3 million, compared to \$131.5 million of net cash provided by investing activities for the nine-months ended September 30, 2002. Net cash provided by investing activities for the nine-months ended September 30, 2003 consisted of \$4.5 million of distribution from the Boston Capital joint venture. Net cash used in investing activities for the nine-months ended September 30, 2003 consisted of \$1.7 million in expenditures for property, equipment and leasehold improvements in connection with completed and leased hotels and \$1.3 million in contributions to joint ventures associated with the acquisition of the Chicago, Illinois - Wheeling hotel. Sources of cash from investing activities for the nine-months ended September 30, 2002 consisted of \$145.0 million in proceeds from sales of hotels and \$10.5 million of a guaranty deposit refunded to us by HPT as part of the April 2002 sale-leaseback transaction. Net cash used in investing activities for the nine-months ended September 30, 2002 consisted of \$16.0 million of cash paid for security deposits related to the 21 hotels sold and leased back from HPT in April 2002 and

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\$8.1 million of expenditures for property, equipment and leasehold improvements in connection with completed and leased hotels.

For the nine-months ended September 30, 2003, net cash used in financing activities was \$414,000, compared to \$132.5 million of net cash used in financing activities for the nine-months ended September 30, 2002. Net cash used in financing activities during the nine-months ended September 30, 2003 consisted of principal payments on notes payable. Net cash used in financing activities during the nine-months ended September 30, 2002 consisted of \$192.2 million of principal payments on notes payable, partially offset by \$59.7 million of proceeds from mortgages and notes payable. The principal payments on notes payable represent payments made to pay off note balances on hotels sold in the April 2002 sale-leaseback transaction. The proceeds from mortgages and notes payable represent the proceeds from the refinancing of our debt in April 2002.

As part of the acquisition of the Chicago, Illinois - Wheeling hotel in April 2003, we assumed \$7.5 million of mortgage notes payable and acquired \$5.3 million of property, equipment and fixtures, \$668,000 of accounts payable and other accrued expenses and \$300,000 of other assets including accounts receivable and prepaid expenses. These amounts represent non-cash activities and are not reflected in our statements of cash flows.

On July 22, 2003, our Boston Capital joint venture sold seven hotels to HPT for \$65 million, which we agreed to lease. The proceeds of the transaction of \$65.0 million were used to repay all of the mortgage and mezzanine debt of the joint venture, with the balance distributed to the partners. The joint venture recognized a loss of \$136,000 on the sale of these remaining hotels. In accordance with the profit and loss allocation terms of the joint venture agreement, for the nine-months ended September 30, 2003, we recorded all of the \$2.3 million net pre-tax loss of the joint venture.

On the fifteenth of each month, we are required to make a lease payment of \$4.3 million to HPT related to the 64 hotels we lease from HPT. Our operations do not generate sufficient cash to fund these obligations. As a result, in order to meet this obligation, we must use our cash reserved for continuing operations and rely upon additional reimbursements from the FF&E reserve accounts discussed above. We anticipate that we will not have sufficient cash to make the lease payment on January 15, 2004.

As of September 30, 2003, we had borrowed \$66 million from GMAC, financial institutions and banks. This debt has scheduled maturity dates ranging from December 2003 to June 2011 with interest rates, which range from 5% to 8.30%. On December 30, 2003, \$7.4 million of this debt will mature. We anticipate that we will not have sufficient cash to repay this obligation.

Our Series A and Series B Preferred Stock accumulate dividends at a rate of 7.5% with dividend payments made quarterly, upon approval of the board of directors, and in preference to any dividend on our Common Stock. These payments are approximately \$2.5 million per quarter. We have not made the last eight scheduled preferred stock dividend payments. We intend to assess our cash position on a quarterly basis and will likely elect to forego additional scheduled dividend payments on our preferred stock. As of September 30, 2003, we had approximately \$18.2 million of accumulated unpaid dividends. Pursuant to the provisions of the certificate of designation for the Series A and Series B Preferred Stock, the conversion price (i.e. the price at which the Preferred Stock may convert into Common Stock) was reduced in August 2003 to \$7.00 per share to reflect our decision to forego payment of the May 2003 and August 2003 preferred stock dividend payments. The reduction in the conversion price to \$7.50 in February 2003 resulted in an increase in the dividend rate (beginning in March 2003) on the Series B preferred stock from 7.5% to 12.0%. No such provision applies to the Series A preferred stock, however, the failure to make future dividend payments will result in a further reduction in the conversion price of the Series A preferred stock.

Pursuant to a mandatory redemption clause in the Certificates of Designation for the Series A and Series B Cumulative Convertible Preferred Stock, we are required to redeem the Series A and Series B

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Preferred Stock in September 2004. The mandatory redemption amount is equal to \$107 million plus unpaid dividends. As of September 30, 2003, the mandatory redemption amount was approximately \$125.2 million. If we fail to redeem the Preferred Stock when due, we are required to issue to each holder of Preferred Stock on such date, and on each three month anniversary thereafter, warrants to purchase 25% of the number of shares of Common Stock into which such holder's outstanding shares of Preferred Stock would be convertible on such date. The warrants would be immediately exercisable at a purchase price of \$.01 per share of Common Stock.

In the event we liquidate, the holders of the Series A and Series B Preferred Stock are entitled to receive a payment equal to the stated value of their shares, plus any accrued but unpaid dividends (the "Liquidation Amount"), prior to any distribution or payment to the holders of our Common Stock. As of September 30, 2003, the Liquidation Amount was \$125.2 million, including \$18.2 million of unpaid dividends. Alternatively, the holders of the Series A and Series B Preferred Stock may convert any or all of their shares into shares of Common Stock. In the event of a corporate transaction that constitutes a change of control, we are required to offer to redeem all of the outstanding shares of Series A and Series B Preferred Stock for a price equal to the greater of the Liquidation Amount or 175% of the stated value of the shares. As of September 30, 2003, one hundred seventy five percent of the stated value of the shares was \$187.3 million. If we do not redeem the Preferred Stock upon a change of control, the conversion price of the Preferred Stock will be reduced to the lower of the then applicable conversion price or the market price of the Common Stock on the redemption date divided by 1.75, provided that the conversion price will not be reduced to an amount less than the par value of the Common Stock. In connection with the Sale Transactions, we are seeking stockholder approval of an amendment to the Certificates of Designations for our Series A and Series B Preferred Stock to change the dividend rights, redemption rights and liquidation preferences of the Preferred Stock such that the holders of the our Common Stock will be entitled to receive a portion of the Liquidation proceeds in excess of \$25 million.

The following table summarizes our contractual cash and debt obligations for the next five years as of September 30, 2003 (in thousands):

Payments due by Period:

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-Term Debt	\$ 66,029	\$ 8,248	\$ 54,057	\$ 139	\$ 3,585
Rent Expense for Leased Hotels	793,111	52,007	104,015	104,015	533,074
Rent Expense on Corporate Office	231	231	–	–	–
Rent Expense on hotel equipment	606	423	175	8	–
Preferred Stock Redemption	125,227	125,227	–	–	–
Total	\$ 985,204	\$ 186,136	\$ 158,247	\$ 104,162	\$ 536,659

We had cash and cash equivalents of \$9.4 million at September 30, 2003. We believe that a combination of our cash and cash equivalents and cash from operations will be sufficient to provide capital for operations through December 2003. However, we currently expect our cash and cash equivalents balance to decline during the quarter ended December 31, 2003. If we experience a material decline in operating performance (including RevPAR), we may not generate sufficient cash flow to support our operations through December 2003. In addition, if our operating performance does not improve materially (including RevPAR), we will not have sufficient funds to meet our operating needs in the first quarter of 2004. Furthermore, in order to meet our long-term financing obligations, we will be required to raise additional capital. We do not currently project that we will generate sufficient cash flow to repay the mandatory redemption of the preferred stock in 2004. In addition to the proposed Sale Transaction, we continue to consider a number of financing alternatives, including credit facilities, the issuance of equity, debt or equity-linked securities and joint ventures, which are necessary to provide the capital needed to meet our financing needs. In conjunction with these activities, the Company has

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incurred and charged to operating expense approximately \$609,000 of legal and professional fees as of September 30, 2003. We are unable to assure that we will be able to obtain financing on a timely basis, on acceptable terms, or at all. If we are unable to obtain financing on a timely basis or complete the proposed Sale Transactions, we do not anticipate having the ability to meet our obligations as the obligations become due.

Certain Business Considerations

Investors are cautioned that certain statements contained in this document as well as some of our statements in periodic press releases and some oral statements of our officials during presentations about the company are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements that are predictive in nature, which depend upon or refer to future events or conditions, which include words such as “believes,” “anticipates,” “estimates,” “expects” or similar expressions. In addition, any statements concerning future financial performance, ongoing business strategies or prospects, and possible future actions, which may be provided by our management, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about our company, economic and market factors and the industry in which we do business, among other things. These statements are not guaranties of future performance and we have no specific intention, and we disclaim any obligation, to update these statements.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The principal important risk factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements, include, those risks described in the preliminary proxy statement we filed with the SEC on November 6, 2003 and the following:

We Cannot Be Sure When the Proposed Asset Sale Transactions Contemplated by the Purchase Agreements With HPT and SCH Will Be Complete. The consummation of the Sale Transactions are subject to the satisfaction of various conditions, including the requirement that we obtain stockholder approval of the asset sales in and the approval of the amendment to the Certificates of Designations of the Series A and B Preferred Stock. In addition, HPT may terminate our asset sale agreement with HPT if, among other things:

we have not obtained stockholder approval;

we materially breach our representations and warranties, covenants, or agreements contained in the agreement;

if our agreement with HPT to terminate our lease at the closing of the Sale Transactions (the “Termination Agreement”) is terminated; or

if our asset sale agreement with SCH is terminated.

SCH may terminate our asset sale agreement with SCH if, among other things:

we have not obtained stockholder approval;

we materially breach our representations and warranties, covenants, or agreements contained in the agreement; or

if our asset sale agreement with HPT is terminated.

We cannot guarantee that we will be able to meet the closing conditions set forth in the asset sale agreements. If we are unable to meet the closing conditions, HPT and/or SCH will not be obligated to purchase our assets. If the asset sales contemplated by the asset sale agreements are not approved by our stockholders or do not close, our Board, in discharging their fiduciary obligations to our stockholders, will evaluate other alternatives which may be less favorable to our stockholders than the contemplated asset sales with HPT and SCH.

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If we do not close the asset sale contemplated by the HPT Purchase Agreement, we may fail to comply with the terms of our lease agreement, which could result in the loss of our rights as a tenant to the applicable hotels. The terms of our amended lease agreement with HPT require us to guarantee the payment of rent for the duration of the lease and, as a guarantor, to maintain a minimum net worth of \$52 million. At September 30, 2003, our net worth (as defined in the lease agreement with HPT) was \$53.2 million. We expect that our net worth will decline during the year ending December 31, 2003 below \$52 million. Failure to maintain a net worth above \$52 million would result in a breach of our lease agreement with HPT which would give HPT the right to start proceedings that would result in the cancellation of the lease agreement and we would lose our rights as a tenant. If HPT cancels the lease agreement and we lose our rights as tenants under the applicable hotels, we will likely not be able to continue operations.

If we fail to fully pay our rent obligations to HPT on time, HPT can Terminate the Termination Agreement and Our Asset Sale Agreement With HPT. The terms of the Termination Agreement require that we make all rent payments to HPT in full when they become due and payable. If we fail to make such rent payments, HPT can terminate the Termination Agreement and the asset sale agreement.

The terms of our amended and restated lease agreement with HPT require us to make monthly base rent payments to HPT in the amount of \$4.3 million on the first day of every month. The Termination Agreement with HPT provides: (i) a modification of the rent payment due date from the first day of each month to the fifteenth day of each month from the date thereof until the closing date of the asset sale agreement; (ii) for the termination of all of Candlewood's lease obligations with HPT upon the closing date of the asset sale to HPT and (iii) for the release of any and all claims that HPT may have against us under any prior agreements and transactions between HPT and Candlewood.

We currently believe that we have enough funds to make the rent payments in full when they become due for the remainder of 2003. If the HPT asset sale agreement does not close by January 15, 2004, we cannot assure you that we will have enough funds to make the rent payment for the month of January 2004. In such case, HPT would have the right to terminate the HPT asset sale agreement which could lead to the termination of the SCH asset sale agreement.

We will incur additional alternative minimum tax if the Sale Transactions close after December 31, 2003. As noted above, the consummation of the Sale Transactions are subject to the satisfaction of various conditions. If such conditions are not satisfied so as to enable the asset sales to occur prior to December 31, 2003, we will incur a significant amount of additional alternative minimum tax due to limitations on using net operating loss carryforwards to offset alternative minimum taxable income. If we incur additional alternative minimum tax, the amount of funds available for distribution to our stockholders will be reduced by the amount of such additional tax liability.

We May Not Have Sufficient Working Capital to Meet Our Day-to-Day Operating Cash Flow Needs. We had cash and cash equivalents of \$9.4 million at September 30, 2003. We believe that a combination of our cash and cash equivalents and cash from operations will be sufficient to provide capital for operations through December 2003. We currently expect our cash and cash equivalents balance to decline during the quarter ended December 31, 2003. If we experience a material decline in operating performance (including RevPAR), we may not generate sufficient cash flow to support our operations through December 2003. In addition, if our operating performance does not improve (including RevPAR), we will not have sufficient funds to meet our operating needs in the first quarter of 2004. Furthermore, in order to meet our long-term financing obligations, we will be required to raise additional capital. We do not currently project that we will generate sufficient cash flow to repay the mandatory redemption of the preferred stock in 2004. We are unable to assure that we will be able to obtain financing on a timely basis, on acceptable terms, or at all.

If Our Net Worth Continues to Decline, We Will Fail to Comply With the Terms of Our Agreements with HPT, Which Could Result In the Loss of Our Rights as a Tenant Under the Applicable Hotels. The

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terms of our amended lease agreement with HPT requires us to guarantee the payment of rent for the duration of the lease and, as a guarantor, to maintain a minimum net worth in an amount at least equal to the aggregate of one year's minimum rent (\$52 million). At September 30, 2003, our net worth as defined in the agreement was \$53.2 million. We expect that our net worth will decline during the quarter ended December 31, 2003, and we cannot assure you that it will not decline below \$52 million. If the lease agreement is cancelled and we lose our rights as tenants under the applicable hotels, we may not be able to continue our operations.

We May be Unable to Service our Debt and lease Obligations. Our ability to make payments on, to repay or to refinance our indebtedness and to make our scheduled lease payments and preferred stock dividends will depend upon our ability to generate capital in the future and increase RevPAR. We cannot predict whether we will be able to reverse the recent declines in occupancy levels and room rates. Future occupancy and room rates may be impacted by a number of factors including:

- the number and geographic location of new hotels;
- the season in which new hotels open;
- competition;
- market acceptance of our hotels;
- general economic conditions;
- unexpected events, such as the World Trade Center attacks; and
- the profitability of the businesses' of our core customers.

Accordingly, we cannot make any assurances that our business will generate sufficient cash flow from operations to fund our debt obligations or make our scheduled lease and preferred stock dividend payments as they become due. For example, we have not made scheduled dividend payments on our preferred stock during the past eight quarters. We do not currently have sufficient capital to pay all of our debts if they were due today. We cannot provide any assurances that we will be able to refinance any of our indebtedness on commercially reasonable terms, or at all. Our ability to make payments on, to repay or to refinance our indebtedness and to make our scheduled lease and preferred stock dividend payments also is, to a certain extent, subject to general economic, competitive, legislative, regulatory and other factors beyond our control. Our inability to make payments on, to repay, or to refinance our debt, lease and preferred stock obligations could result in litigation and have a material adverse effect on our business and results of operations. See “- Liquidity and Capital Resources.”

We Do Not Have Sufficient Funds to Redeem our Preferred Stock When it Becomes Due. Pursuant to a mandatory redemption provisions in the Certificates of Designation for our Series A and Series B Cumulative Convertible Preferred Stock, we are required to redeem our Preferred Stock in September 2004. As of September 30, 2003, the mandatory redemption amount was approximately \$125.2 million. If we fail to redeem the Preferred Stock when due, we are required to issue to each holder of Preferred Stock on such date, and on each three month anniversary thereafter, warrants to purchase 25% of the number of shares of Common Stock into which such holder's outstanding shares of Preferred Stock would be convertible on such date. The warrants would be immediately exercisable at a purchase price of \$.01 per share of Common Stock. We do not currently have, and do not believe that our operations will generate, sufficient capital to make the scheduled payment to redeem our Preferred Stock, and cannot provide any assurances that we will be able to obtain the financing necessary to do so.

We have Never Been Profitable. At September 30, 2003, we operated 77 hotels. This limited number of hotels limits our ability to attract potential franchisees and grow our business. We have incurred losses to date and cannot give any assurance that we will be profitable in the future. Operation of individual hotels and a chain of multiple hotels are subject to numerous risks, including:

- the inability to maintain high occupancy rates or to attract guests for extended-stays;

the inability to achieve expected nightly rates;

the inability to operate the hotels at expected expense levels;

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the ability to attract and retain quality personnel; and

liability for accidents and other events occurring at hotel properties.

If we are unable to efficiently and effectively operate our hotels, we may never be profitable.

Adverse Economic Conditions May Negatively Impact Our Occupancy Rates and Results of Operations. Since our core customers are extended-stay business travelers, moderate or severe economic downturns or adverse economic conditions negatively affect our operations. These economic conditions may be widespread or isolated to one or more geographic regions. Economic downturns generally cause a decline in the occupancy rates of our hotels as our core customers limit their extended-stay travel. For example, the tragedy at the World Trade Center caused significant short-term declines in our occupancy rates and room rates. Decreases in our occupancy rates result in a decrease in our operating revenue. In addition, as our occupancy rates decrease, we expect that competition will increase and that the average daily room rate of our hotels will be negatively impacted. As a result, recessions or other general economic conditions may have a negative impact on our results of operations and financial condition.

We Depend on a Single Type of Lodging Facility. We intend to exclusively develop, manage and franchise extended-stay hotels under our Candlewood Suites and Cambridge Suites brands. We currently do not intend to develop any lodging facilities other than hotels focused on extended-stay business travelers and do not intend to develop lodging facilities with other franchisors. Accordingly, we will be subject to risks inherent in concentrating investments in a single type of lodging facility, such as a shift in demand or a reduction in business following adverse publicity, which could have a material adverse effect on our business and results of operations. In addition, we have a limited history upon which we can gauge consumer acceptance of our hotels and, accordingly, we cannot provide assurance that guests who are looking for conventional or extended-stay hotel accommodations will readily accept out hotels. Furthermore, we compete against other facilities with substantially greater brand recognition.

We are Subject to Real Estate Investment Risks. Our investment in our hotels will be subject to varying degrees of risk related to our ownership and operation of real property. The underlying value of our real estate investments is significantly dependent upon our ability to maintain or increase cash provided by operating our investments. The value of our hotels and the income from our hotels may be materially adversely affected by:

changes in national economic conditions;

changes in general or local economic conditions and neighborhood characteristics;

competition from other lodging facilities;

changes in the availability, cost and terms of financing;

the ongoing need for capital improvements;

changes in operating expenses;

changes in real property tax rates;

changes in governmental rules and policies;

the impact of present or future environmental laws;

natural disasters; and

other factors which are beyond our control.

In addition, our real estate investments are relatively illiquid. As a result, we may not be able to vary our portfolio in response to changes in economic and other conditions. Accordingly, we cannot assure that we will be able to dispose of an investment when we find disposition advantageous or necessary, or that the sale price of any disposition will recoup or exceed the amount of our investment.

Our Hotels May Experience Seasonal Fluctuations. Based upon our experience operating extended-stay hotels, we expect that occupancy and revenues may be lower than normal during the months of November, December and January due to the holiday season. Because many of our expenses do not fluctuate with occupancy, declines in occupancy may cause fluctuations or decreases in our quarterly

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results.

We Depend on Key Personnel. Our success depends to a significant extent upon the efforts and abilities of our senior management and key employees, particularly, Mr. Jack P. DeBoer, Chairman of the Board and Chief Executive Officer, and Mr. Warren D. Fix, Executive Vice President and Chief Financial Officer. The loss of the services of either of these individuals could have a material adverse effect upon our business and results of operations.

Because Shares of our Common Stock Trade on the Over The Counter Bulletin Board, the Liquidity of our Common Stock May Be Limited. Our Common Stock was delisted from The Nasdaq SmallCap Market on September 19, 2002 and our Common Stock now trades on the Over The Counter Bulletin Board. Consequently, the liquidity of our Common Stock will likely be impaired, not only in the number of shares which can be bought and sold, but also because of delays in the timing of transactions and a reduction in securities analyst and the news media coverage, if any, that we receive. As a result, holders of our Common Stock might find it more difficult to trade their Common Stock promptly, or at all, and at reasonable prices or to obtain accurate quotations as to its price.

Our Growth is largely Dependant on Franchising Hotels. We intend to grow primarily by franchising Candlewood Suites and Cambridge Suites hotels. Our financial condition may impact our ability to continue to sell franchises. For example, we chose not to apply to sell franchises in the State of Virginia based on our understanding of, and inability to meet, certain financial covenants of the state. Our ability to franchise hotels and obtain franchisees involves additional substantial risks, including:

there are a limited number of franchising opportunities;

we may be unable to compete with national and regional brand franchisors, many of whom have greater brand recognition than Candlewood;

unavailability of financing to potential franchisees on favorable terms, or at all;

delays in completion of construction of franchised hotels;

termination of signed franchise agreements;

incurring substantial costs if we abandon a franchising project prior to completion;

a franchisee's failure to obtain all necessary zoning and construction permits;

competition for suitable franchise sites from our competitors, some of whom may have greater financial resources than Candlewood franchisees;

our franchisees actual costs exceeding budgeted or contracted amounts; and

our franchised properties not achieving desired revenue or profitability levels once opened.

Our franchise agreements provide for a variety of conditions in regards to the franchisees' obligations to build the hotels and, accordingly, these hotels may never be constructed or opened. If we are unable to successfully franchise hotels on time or within budget, or at all, our business and results of operations would suffer.

Certain of these factors are discussed further elsewhere in this Form 10-Q and the Company's other filings with the Securities and Exchange Commission.

Impact of New Accounting Standards

On September 29, 2001 the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations." SFAS No. 141 eliminates the pooling-of-interest method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. The requirements of SFAS No. 141 are effective for any business combination accounted for by the purchase method that is completed after September 20, 2001. Additionally, SFAS No. 142, "Goodwill and Other Intangibles," was issued. Under SFAS No. 142, goodwill and other indefinite lived intangibles are no longer amortized, but are periodically reviewed for impairment. Intangibles with definite lives are

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amortized over their useful lives. SFAS No. 142 is effective for years beginning after December 15, 2001. SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was also issued for years beginning after December 15, 2001. SFAS No. 144 revises the measurement and recognition of impairment, specifically on assets held for disposal.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN No. 45). FIN No. 45 significantly changes the current practice in the accounting for, and disclosure of, guarantees. FIN No. 45 requires certain guarantees to be recorded at fair value, which is different from current practice, which is generally to record a liability only when a loss is probable and reasonably estimable, as those terms are defined in SFAS No. 5, "Accounting for Contingencies." FIN No. 45 also requires a guarantor to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote, which is another change from current practice. The disclosure requirements of FIN No. 45 are currently effective, although the initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("Interpretation 46"), which required the consolidation of an entity by an enterprise (i) if that enterprise, known as a "primary beneficiary", has a variable interest that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both and (ii) if the entity is a variable interest entity, as defined by Interpretation 46. An entity is a variable interest entity if (a) the total equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (b) the equity investors do not have the characteristics of a controlling financial interest in the entity. Interpretation 46 applies immediately to all variable interest entities created after January 31, 2003. For variable interest entities created by public companies before February 1, 2003, Interpretation 46 is applicable for the first reporting period that ends after December 15, 2003. The initial determination of whether an entity is a variable interest entity shall be made as of the date at which a primary beneficiary becomes involved with the entity and reconsidered as of the date one of three triggering events described by Interpretation 46 occur. We do not believe that the adoption of this interpretation will have a material effect on our financial statements.

In July 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS 150 generally requires liability classification of mandatorily redeemable preferred stock. The liability for the mandatorily redeemable preferred shares should be recorded at fair value. Any difference between fair value and the redemption value would be accreted through interest expense. Issuance costs previously recognized as a reduction to the carrying amount of the mandatorily redeemable preferred shares would be reclassified to a deferred charge (asset account) and amortized. Dividends on mandatorily redeemable preferred shares and any accretion on the preferred shares would be classified as a liability and included in interest expense. We adopted SFAS 150 on July 1, 2003. As a result of the adoption of SFAS 150, we reflected our redeemable Series A and Series B Preferred Stock at its redemption amount of \$107 million and the related dividends in arrears of \$18.2 million in liabilities on our September 30, 2003 balance sheet. The remaining unamortized preferred stock issuance costs of \$2.2 million are reflected in assets as a deferred charge on our September 30, 2003 balance sheet. In addition, for the three months ended September 30, 2003, accrued but unpaid dividends on the Series A and Series B Preferred Stock and the related amortization of the preferred stock issuance costs totaling \$3.4 million were included in interest expense in our statement of operations.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections", which

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rescinded SFAS No. 4 requiring gains and losses from extinguishment of debt to be classified as extraordinary. We adopted SFAS No. 145 in 2002 and classify these amounts as operating expenses.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our earnings are affected by changes in interest rates as a significant portion of our outstanding indebtedness is at variable rates based on LIBOR, the 10-year Treasury note or Prime. If interest rates change by .01 percent, the market value of our mortgages and notes payable, based on the outstanding balance, effected by the variable rates at September 30, 2003, would change by approximately \$6,600. Additionally, we have market risk on our short-term investments, which are considered cash equivalents, due to changes in interest rates. If interest rates increase by .01 percent, the market value of our short-term investments, based on the outstanding balance at September 30, 2003, would change by approximately \$900.

In September 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and its amendments, Statements 137 and 138 in September of 1999 and September of 2000, respectively. We adopted Statement No. 133, as amended, effective January 1, 2001. The Statement requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. As of September 30, 2003, the Company had one derivative financial instrument, an interest rate cap, which was recorded at fair value of \$2,100 as of September 30, 2003, with the remaining unamortized change in fair value since the purchase date recorded in accumulated other comprehensive loss in the equity section of the balance sheet.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act of 1934 reports 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 Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, the Company has investments in certain unconsolidated entities. As the Company does not control or manage these entities, its disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those it maintains with respect to its consolidated subsidiaries.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the quarter covered by this Report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There have been no changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

See the Exhibit Index beginning on page 36.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CANDLEWOOD HOTEL COMPANY, INC.

Date: November 14, 2003

By: /s/ Jack P. DeBoer

Jack P. DeBoer
Chairman and Chief Executive Officer

Date: November 14, 2003

By: /s/ Warren D. Fix

Warren D. Fix
Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
2.1	Asset Purchase and Sale Agreement, dated as of October 27, 2003, by and among Candlewood Hotel Company, Inc., Candlewood Hotel Company, L.L.C. and Six Continents Hotels, Inc. (18)
2.2	Purchase and Sale Agreement, dated as of October 27, 2003, by and among Candlewood Hotel Company, Inc. and certain of its affiliates and Hospitality Properties Trust. (18)
2.3	Termination Agreement dated as of October 27, 2003, by and among Candlewood Hotel Company, Inc., Candlewood Leasing No. 1, Inc., HPT CW Properties Trust, HPT CW MA Realty Trust, HH HPTCW II Properties LLC and Hospitality Properties Trust. (18)
3.1	Restated Certificate of Incorporation of Candlewood Hotel Company, Inc. (1)
3.2	Amended and Restated Bylaws of Candlewood Hotel Company, Inc. (11)
3.3	Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series A Cumulative Convertible Preferred Stock of Candlewood Hotel Company, Inc. (5)
3.4	Certificate of Amendment of Certificate of Designations of Series A Preferred Stock. (9)
3.5	Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series B Cumulative Convertible Preferred Stock of Candlewood Hotel Company, Inc. (9)
4.1	Specimen Certificate of Common Stock. (2)
4.2	Form of Warrant. (9)
4.3	Amended and Restated Stockholders Agreement dated as of July 10, 1998. (9)
4.4	Amendment No. 1 dated October 27, 2003, amending that certain Amended & Restated Stockholders Agreement dated July 10, 1998
10.1	Form of Indemnification Agreement for Executive Officers and Directors. (1)
10.2	Indemnification Agreement Schedule. (10)
10.3	1996 Equity Participation Plan and Form of Stock Option Agreements. (3)
10.4	First Amendment to the 1996 Equity Participation Plan effective as of May 18, 1998. (10)

- 10.5 Employment Agreement between Candlewood Hotel Company, Inc. and Jack P. DeBoer dated as of September 1, 1996. (1)
- 10.6 Credit Facility Agreement between Candlewood Hotel Company, Inc. and Doubletree Corporation dated as of November 11, 1996. (4)
- 10.7 Subordinated Promissory Note from Candlewood Hotel Company, Inc. to Doubletree Corporation dated as of November 11, 1996. (4)
- 10.8 Series A Cumulative Convertible Preferred Stock Purchase Agreement dated as of August 27, 1997. (5)
- 10.9 Amended and Restated Registration Rights Agreement dated as of July 10, 1998. (9)
- 10.10 Purchase and Sale Agreement, dated as of November 19, 1997, by and among Candlewood Hotel Company, Inc. and certain of its affiliates, as sellers, and HPT, as purchaser. (6)
- 10.11 First Amendment to Purchase and Sale Agreement and Agreement to Lease and Fourth Amendment to Lease Agreement and Incidental Documents, dated as of January 7, 1999, by and among Candlewood Hotel Company, Inc., Candlewood Leasing No. 1, Inc., HPT and HPT CW, and seventeen entities which are parties thereto. (10)
- 10.12 Agreement to Lease, dated as of November 19, 1997, by and between Candlewood Hotel Company, Inc. and HPT. (6)
- 10.13 Purchase and Sale Agreement, dated as of May 14, 1998, by and among Candlewood Hotel Company, Inc. and certain of its affiliates, as sellers, and HPT, as purchaser. (7)
- 10.14 First Amendment to Purchase and Sale Agreement, Agreement to Lease, Lease Agreement and Incidental Documents, dated as of June 18, 1998, by and among Candlewood Hotel Company, Inc., Candlewood Leasing No. 2, Inc., HPT and HPT CW II. (10)
- 10.15 Second Amendment to Purchase and Sale Agreement, Agreement to Lease, Lease Agreement and Incidental Documents, dated as of July 31, 1998, by and among Candlewood Hotel Company, Inc., Candlewood Leasing No. 2, Inc., HPT and HPT CW II. (8)

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Exhibit No.	Description
10.16	Third Amendment to Purchase and Sale Agreement and Agreement to Lease and Sixth Amendment to Lease Agreement and Incidental Documents, dated as of December 23, 1998, by and among Candlewood Hotel Company, Inc., Candlewood Leasing No. 2, Inc., HPT, HPT CW II and seventeen entities which are parties thereto. (10)
10.17	Agreement to Lease, dated as of May 14, 1998, by and between Candlewood Hotel Company, Inc. and HPT. (7)
10.18	Securities Purchase Agreement dated as of September 30, 1998. (9)
10.19	Lease Agreement dated April 30, 1998 by and between Candlewood Hotel Company, Inc. and Vantage Point Properties, Inc. (10)
10.20	Third Amendment to Agreement to Lease by and between Candlewood Hotel Company, Inc. and HPT. (10)
10.21	Purchase and Sale Agreement by and among Candlewood Hotel Company, Inc., Candlewood Philadelphia-Mt. Laurel, NJ, LLC, Candlewood Las Vegas, NV, LLC and HPT. (11)
10.22	Purchase and Sale Agreement, dated as of April 11, 2002, by and among Candlewood Hotel Company, Inc. and certain of its affiliates, as sellers, and Hospitality Properties Trust, as purchaser. (12)
10.23	Second Amended and Restated Lease Agreement, dated as of April 11, 2002, by and between HPT CW Properties Trust, as landlord, and Candlewood Leasing No. 1, Inc., as tenant. (12)
10.24	Second Amended and Restated Assignment and Security Agreement, dated as of April 11, 2002, by and between Candlewood Leasing No. 1, Inc., assignor, and HPT CW Properties Trust, assignee. (12)
10.25	Fourth Amendment to Agreement to Lease, dated as of April 11, 2002, by and between Hospitality Properties Trust and Candlewood Hotel Company, Inc. (12)
10.26	Second Amended and Restated Guaranty Agreement, dated as of April 11, 2002, by Candlewood Hotel Company, Inc., as guarantor, for the benefit of HPT CW Properties Trust and Hospitality Properties Trust. (12)
10.27	Second Amended and Restated Security Agreement, dated as of April 11, 2002, by and between Candlewood Leasing No. 1, Inc., as tenant, and HPT CW Properties Trust, as secured party. (12)
10.28	Second Amended and Restated Stock Pledge Agreement, dated as of April 11, 2002, by Candlewood Hotel Company, Inc., as pledgor, for the benefit of HPT CW Properties Trust, as secured party. (12)
10.29	Form of Letter Agreement between Candlewood Hotel Company, Inc. and certain executive officers and schedule related thereto. (13)
10.30	Limited Liability Company Agreement of Candlewood Hotel Company Fund I, LLC, dated as of June 1, 1999, between Candlewood Ventures I, LLC and BCIA CW Member, LLC. (14)

- 10.31 Guaranty of Candlewood Hotel Company, Inc., dated as of June 1, 1999, in favor of Candlewood Hotel Company Fund I, LLC. (14)
- 10.32 Loan Agreement, dated as of June 1, 1999, between Candlewood Hotel Company Fund I, LLC and Boston Capital Institutional Advisors LLC. (14)
- 10.33 Promissory Note of Candlewood Hotel Company Fund I, LLC, dated as of June 1, 1999, in favor of Boston Capital Institutional Advisors LLC. (14)
- 10.34 Key Principal Recourse Agreement, dated as of June 1, 1999, by Candlewood Hotel Company, Inc. for the benefit of Boston Capital Institutional Advisors LLC. (14)
- *10.35 Senior Executive Transaction Bonus Plan. (15)
- 10.36 Waiver Letter dated as of March 27, 2003 by and between Hospitality Properties Trust, Candlewood Hotel Company, Inc. and Candlewood Leasing No. 1, Inc. (15)
- 10.37 Loan Agreement dated April 12, 2002 by and among Candlewood Portfolio 1, LLC, certain other Candlewood entities and GMAC Commercial Mortgage Corporation. (15)
- 10.38 Promissory Note from Candlewood Portfolio 1, LLC and certain other Candlewood entities to GMAC Commercial Mortgage Corporation dated as of April 12, 2002. (15)
- 10.39 Management Agreement dated April 25, 2003 by and between HPT TRS SPES, Inc., as owner, and Candlewood Management, LLC as Manager. (16)

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Exhibit No.	Description
10.40	Purchase and Sale Agreement, dated as of July 21, 2003, by and among Candlewood Hotel Company, Inc. and certain of its affiliates, as sellers, and Hospitality Properties Trust, as purchaser. (17)
10.41	Fifth Amendment to Agreement to Lease, dated as of July 21, 2003, by and between Hospitality Properties Trust and Candlewood Hotel Company, Inc. (17)
10.42	First Amendment to Second Amended and Restated Lease Agreement, dated as of July 21, 2003, by and between HPT CW Properties Trust and certain of its affiliates, as landlord, and Candlewood Leasing No. 1, Inc., as tenant. (17)
10.43	Third Amended and Restated Guaranty Agreement, dated as of July 21, 2003, by Candlewood Hotel Company, Inc., as guarantor, for the benefit of HPT CW Properties Trust and certain of its affiliates, as landlord. (17)
10.44	Confirmation of Incidental Documents, dated as of July 21, 2003, by Candlewood Hotel Company, Inc. and certain of its affiliates, as tenant, for the benefit of HPT CW Properties Trust and certain of its affiliates, as landlord. (17)
10.45	Voting Agreement, dated as of October 27, 2003, by and among Candlewood Hotel Company, Inc. and certain stockholders of Candlewood as set forth therein.
11.1	Statement re Computation of Per Share Earnings - not applicable.
21.1	Subsidiaries of the Registrant. (17)
31.1	Rule 13a-14(a) Certifications
32.1	Section 1350 Certifications
*	Compensation Plan or Agreement
(1)	Incorporated by reference pursuant to Rule 12b-32 from Candlewood Hotel Company, Inc.' s Registration Statement on Form S-1 (Registration No. 333-12021) filed September 13, 1996.
(2)	Incorporated by reference pursuant to Rule 12b-32 from Candlewood Hotel Company, Inc.' s Registration Statement on Form S-1/A (Registration No. 333-12021) filed October 17, 1996.
(3)	Incorporated by reference pursuant to Rule 12b-32 from Candlewood Hotel Company, Inc.' s Registration Statement on Form S-1/A (Registration No. 333-12021) filed October 30, 1996.
(4)	Incorporated by reference from Candlewood Hotel Company' s Annual Report on Form 10-K for the fiscal year ended December 31, 1996.
(5)	Incorporated by reference from Candlewood Hotel Company, Inc.' s Current Report on Form 8-K filed on October 8, 1997.

- (6) Incorporated by reference from Candlewood Hotel Company, Inc.' s Current Report on Form 8-K filed on January 7, 1998.
 - (7) Incorporated by reference from Candlewood Hotel Company, Inc.' s Current Report on Form 8-K filed on June 9, 1998.
 - (8) Incorporated by reference from Candlewood Hotel Company, Inc.' s Current Report on Form 8-K/A filed August 6, 1998.
 - (9) Incorporated by reference from Candlewood Hotel Company, Inc.' s Current Report on Form 8-K/A filed August 10, 1998.
 - (10) Incorporated by reference from Candlewood Hotel Company, Inc.' s Annual Report on Form 10-K for the fiscal year ended December 31, 1998.
 - (11) Incorporated by reference from Candlewood Hotel Company, Inc.' s Quarterly Report on Form 10-Q for the period ended June 30, 2001.
 - (12) Incorporated by reference from Candlewood Hotel Company, Inc.' s Current Report on Form 8-K filed on April 26, 2002.
 - (13) Incorporated by reference from Candlewood Hotel Company, Inc.' s Quarterly Report on Form 10-Q for the period ended June 30, 2002.
 - (14) Incorporated by reference from Candlewood Hotel Company, Inc.' s Quarterly Report on Form 10-Q for the period ended September 30, 2002.
 - (15) Incorporated by reference from Candlewood Hotel Company, Inc.' s Annual Report on Form 10-K for the fiscal year ended December 31, 2002.
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- (16) Incorporated by reference from Candlewood Hotel Company, Inc.' s Quarterly Report on Form 10-Q for the period ended March 31, 2003.
- (17) Incorporated by reference from Candlewood Hotel Company, Inc.' s Quarterly Report on Form 10-Q for the period ended June 30, 2003.
- (18) Incorporated by reference from Candlewood Hotel Company, Inc.' s Current Report on Form 8-K filed on October 28, 2003.

AMENDMENT NO. 1 TO
AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

This Amendment No. 1 (this "AMENDMENT"), dated as of as of October 27, 2003, to the Amended And Restated Stockholders Agreement, dated as of July 10, 1998, by and among Candlewood Hotel Company, Inc., a Delaware corporation (the "COMPANY"), Doubletree Corporation, a Delaware corporation, the Warren D. Fix Family Partnership, L.P., Jack P. DeBoer and the other entities set forth on the signature pages thereto (the "STOCKHOLDERS AGREEMENT"). In consideration of the mutual promises contained herein, and for other good and valuable consideration, the receipt of which is hereby confirmed by the parties hereto, the parties to this Amendment hereby agree to amend the Stockholders Agreement, in accordance with Section 4.4 of the Stockholders Agreement, as follows:

1. Board Nominations. Section 2.1 of the Stockholders Agreement is hereby deleted and replaced in its entirety with the following:

"2.1 Board Nominations. The Board of the Company shall be composed of five (5) members. With respect to such five (5) members, the Company and the Holders have agreed (i) that the Series A Purchaser Group shall be entitled, through a nominating committee or other procedure adopted by the Board, to designate for nomination by the Board two (2) nominees for election to the Board, (ii) that the Series B Purchaser Group shall be entitled, through a nominating committee or other procedure adopted by the Board, to designate for nomination by the Board one (1) nominee for election to the Board, and (iii) that the Doubletree Holders together with the DeBoer/Fix Holders shall be entitled, through a nominating committee or other procedure adopted by the Board, to designate for nomination by the Board two (2) nominees for election to the Board (one (1) of whom shall be an independent director). Immediately upon the closing of the Transactions (as defined in Section 2 below), the Board of the Company shall be reduced to five (5) members and to the extent that any Holders wish to appoint or replace any of their designees to the Board, as permitted under this Section 2.1, at such time, the Board shall immediately designate any such designees and replacements."

2. Effectiveness. This Amendment shall not take effect unless and until (i) the transactions contemplated by the Asset Purchase and Sale Agreement, dated as of October 27, 2003, by and among the Company, Candlewood Hotel Company LLC, a Delaware limited liability company and Six Continents Hotels, Inc., a Delaware corporation and (ii) the transactions contemplated by the Purchase and Sale Agreement, dated as of October 27, 2003, by and among the Company and certain of its affiliates, JPD Corporation, a Kansas corporation and Hospitality Properties Trust, a Maryland real estate investment trust, (collectively, the "TRANSACTIONS") have closed, and shall thereupon become effective immediately

upon closing without any further action required by any party. If the Transactions do not close, this Amendment shall be of no force or effect.

3. Further Assurances. The Company and each of the parties hereto agree to take all action and to execute, deliver and file, or cause to be executed, delivered and filed, any and all documents, instruments and filings necessary to give effect to this Amendment, including

causing the Company to adopt all necessary or desirable amendments to the By-laws of the Company.

4. Other Terms Not Modified or Amended. This Amendment shall not constitute an amendment or waiver of any other provision of the Stockholders Agreement not expressly referred to herein. Except as expressly set forth herein, the terms and conditions of the Stockholders Agreement remain in full force and effect without modification or amendment.

5. Governing Law. THIS AMENDMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE APPLICABLE TO CONTRACTS MADE AND TO BE ENTIRELY PERFORMED WITHIN SUCH STATE.

6. Counterparts. This Amendment may be executed simultaneously in two or more separate counterparts, all of which shall be deemed but one and the same instrument and each of which shall be deemed an original, and it shall not be necessary in making proof of this Amendment to produce or account for more than one such counterpart.

SIGNATURES FOLLOW ON NEXT PAGE.

IN WITNESS WHEREOF, the parties set forth below have signed this Amendment as of the date first hereinabove written.

CANDLEWOOD HOTEL COMPANY, INC.

By: /s/ Jack P. DeBoer

Name: Jack P. DeBoer

Title: Chief Executive Officer

DOUBLETREE CORPORATION

By: _____

Name:

Title:

Amended and Restated Stockholders Agreement

WARREN D. FIX FAMILY
PARTNERSHIP, L.P.

By: /s/ Warren D. Fix

Name: Warren D. Fix
Title: General Partner

/s/ Warren D. Fix

Warren D. Fix

JACK P. DeBOER, for himself and on behalf
of the ALEXANDER DeBOER TRUST
DATED MARCH 14, 1994 and the
CHRISTOPHER SCOTT DeBOER TRUST
DATED MARCH 14, 1995

/s/ Jack P. DeBoer

Name: Jack P. DeBoer

OLYMPUS GROWTH FUND II, L.P.

By: OGP II, L.P., its General Partner
By: RSM, L.L.C., its General Partner

By: /s/ Robert S. Morris

Name: Robert S. Morris
Title: General Partner

Signature page to Amendment No. 1 to
Amended and Restated Stockholders Agreement

OLYMPUS EXECUTIVE FUND, L.P.

By: OEF, L.P., its General Partner
By: RSM, L.L.C., its General Partner

By: /s/ Robert S. Morris

Name: Robert S. Morris
Title: General Partner

JPMORGAN CHASE BANK, FORMERLY

KNOWN AS MORGAN GUARANTY TRUST
COMPANY OF NEW YORK, AS TRUSTEE OF
THE COMMINGLED PENSION TRUST FUND
(MULTI-MARKET SPECIAL INVESTMENT
FUND II) OF JPMORGAN CHASE BANK

By: /s/ Joan Huggins

Name: Joan Huggins
Title: Vice President

JPMORGAN CHASE BANK, FORMERLY
KNOWN AS MORGAN GUARANTY TRUST
COMPANY OF NEW YORK, AS TRUSTEE OF
THE MULTI-MARKET SPECIAL INVESTMENT
TRUST FUND OF JPMORGAN CHASE BANK

By: /s/ Joan Huggins

Name: Joan Huggins
Title: Vice President

Signature page to Amendment No. 1 to
Amended and Restated Stockholders Agreement

JPMORGAN CHASE BANK, FORMERLY
KNOWN AS MORGAN GUARANTY TRUST
COMPANY OF NEW YORK, AS INVESTMENT
MANAGER AND AGENT FOR THE
ALFRED P. SLOAN FOUNDATION (MULTI-
MARKET ACCOUNT)

By: /s/ Joan Huggins

Name: Joan Huggins
Title: Vice President

J.P. MORGAN PARTNERS (SBIC), LLC,
FORMERLY KNOWN AS CHASE VENTURE
CAPITAL ASSOCIATES, L.P.

By: Chase Capital Partners, its General
Partner

By: /s/ David Gilbert

Name: David Gilbert
Title: Managing Director

PRIVATE EQUITY INVESTORS III, L.P.

By: Rohit M. Desai Associates III, LLC
General Partner

By: /s/ Frank J. Pados, Jr.

Name: Frank J. Pados, Jr.
Title: Attorney-In-Fact

Signature page to Amendment No. 1 to
Amended and Restated Stockholders Agreement

EQUITY-LINKED INVESTORS-II

By: Rohit Desai Associates-II
General Partner

By: /s/ Frank J. Pados

Name: Frank J. Pados, Jr.
Title: Attorney-In-Fact

LNR CANDLEWOOD HOLDINGS, INC.

By: _____
Name:
Title:

DELAWARE STATE EMPLOYEES'
RETIREMENT FUNDS

By: Pecks Management Partners Ltd.,
its Investment Advisor

By: /s/ Robert J. Cresci

Name: Robert J. Cresci
Title: Managing Director

Signature page to Amendment No. 1 to
Amended and Restated Stockholders Agreement

DECLARATION OF TRUST FOR THE
DEFINED BENEFIT PLAN OF ZENECA
HOLDINGS INC.

By: Pecks Management Partners Ltd.,

its Investment Advisor

By: /s/ Robert J. Cresci

Name: Robert J. Cresci
Title: Managing Director

DECLARATION OF TRUST FOR THE
DEFINED BENEFIT PLAN OF ICI
AMERICAN HOLDINGS INC.

By: Pecks Management Partners Ltd.,
its Investment Advisor

By: /s/ Robert J. Cresci

Name: Robert J. Cresci
Title: Managing Director

J.W. McCONNELL FAMILY TRUST

By: Pecks Management Partners Ltd.,
its Investment Advisor

By: /s/ Robert J. Cresci

Name: Robert J. Cresci
Title: Managing Director

Signature page to Amendment No. 1 to
Amended and Restated Stockholders Agreement

ADVANCE CAPITAL PARTNERS, L.P.

By: Advance Capital Associates, L.P.

By: Advance Capital Management, LLC

By: _____
Name:
Title:

ADVANCE CAPITAL OFFSHORE
PARTNERS, L.P.

By: Advance Capital Offshore Associates,
LDC

By: Advance Capital Associates, L.P.

By: Advance Capital Management, LLC

By: _____
Name:
Title:

ALLIED CAPITAL CORPORATION

By: _____
Name:
Title:

Signature page to Amendment No. 1 to
Amended and Restated Stockholders Agreement

ALLIED CAPITAL CORPORATION II

By: _____
Name:
Title:

THE FFJ 1997 NOMINEE TRUST

By: _____
Name:
Title:

THE MUTUAL LIFE INSURANCE
COMPANY OF NEW YORK

By: _____
Name:
Title:

J. ROMEO & CO.

By: _____
Name:
Title:

HARBOR INVESTMENTS LTD.

By: Strong Capital Management, Inc.,
its Investment Advisor

By: _____
Name:
Title:

Signature page to Amendment No. 1 to
Amended and Restated Stockholders Agreement

STRONG SPECIAL INVESTMENT LIMITED
PARTNERSHIP

By: Strong Capital Management, Inc., its
General Partner

By: _____
Name:
Title:

STRONG QUEST LIMITED PARTNERSHIP

By: Strong Capital Management, Inc., its
General Partner

By: _____
Name:
Title:

Signature page to Amendment No. 1 to
Amended and Restated Stockholders Agreement

VOTING AGREEMENT

THIS VOTING AGREEMENT is made October 27, 2003, among Hospitality Properties Trust, a Maryland real estate investment trust ("HPT"), Six Continents Hotels, Inc., a Delaware corporation ("SCH") and those stockholders of Candlewood Hotel Company, Inc. ("CHC") listed on Schedule A, as updated from time to time in accordance with Section 5.10 hereof (the "Stockholders").

RECITALS:

1. As of the date hereof, each Stockholder beneficially owns and is entitled to vote the number of (a) shares of common stock, par value \$0.01 per share ("CHC Common Stock"), of CHC or (b) shares of Series A Cumulative Convertible Preferred Stock, par value \$0.01 per share, of CHC ("CHC Series A Stock") or (c) shares of Series B Cumulative Convertible Preferred Stock, par value \$0.01 per share, of CHC ("CHC Series B Stock", and collectively with the CHC Series A Stock, the "CHC Preferred Stock") set forth opposite such Stockholder's name on Schedule B hereto.

2. HPT and CHC and certain of its affiliates are contemporaneously entering into that certain Purchase and Sale Agreement (the "Hotel Purchase Agreement"), SCH and CHC are contemporaneously entering into that certain Asset Purchase and Sale Agreement (the "Brand Purchase Agreement") and HPT CW Properties Trust, John G. Murray, Trustee of HPT CW MA Realty Trust, HH HPT CW II Properties LLC, HPT, CHC and Candlewood Leasing No. 1, Inc. are contemporaneously entering into that certain Termination Agreement (the "Termination Agreement", and together with the Hotel Purchase Agreement and the Brand Purchase Agreement, the "Transaction Agreements").

3. In order to induce HPT, SCH and their respective affiliates to enter into the Transaction Agreements and perform their respective obligations thereunder, the Stockholders desire to make certain representations, warranties and agreements.

In consideration of the foregoing, the parties agree as follows:

SECTION I

DEFINITIONS

The terms set forth below shall have the following meanings:

1.1 "beneficially own": shall have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934 Act, as amended (the "1934 Act").

1.2 "CHC Charter Documents": shall mean CHC's Restated Certificate of Incorporation (including any Certificates of Designation) and by-laws, in each case, as amended.

1.3 "CHC Stock": shall mean the CHC Common Stock and the CHC Preferred Stock.

1.4 "Discretionary Accounts": shall mean (i) JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York, as Trustee of the Commingled Pension Trust Fund (Multi-Market Special Investment Fund II) of JPMorgan Chase Bank, (ii) JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York, as Trustee of the Multi-Market Special Investment Trust Fund of JPMorgan Chase Bank, (iii) JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York, as Investment Manager and Agent for the Alfred P. Sloan Foundation (Multi-Market Account) and (iv) Peck's Management Partners Ltd.

1.5 "Effective Time": shall mean the time at which the

transactions contemplated by the Transaction Agreements close.

1.6 "Party": shall mean HPT, SCH and each of the Stockholders.

1.7 "Person": shall mean an individual, corporation, limited liability company, partnership, association, trust or any other entity or organization, including any domestic or foreign governmental, administrative, judicial or regulatory authority.

1.8 "Purchase Proposal": shall mean any offer or proposal concerning any (A) merger, consolidation, business combination, or similar transaction involving CHC or any of its subsidiaries, (B) sale, lease or other disposition directly or indirectly by merger, consolidation, business combination, share exchange, joint venture, or otherwise of assets representing 25% or more of the consolidated assets of CHC and its subsidiaries or any of (x) the "Properties" (as defined in the Hotel Purchase Agreement) or (y) the "Assets" (as defined in the Brand Purchase Agreement), (C) issuance, sale, or other disposition of (including by way of merger, consolidation, business combination, share exchange, joint venture, or any similar transaction) securities (or options, rights or warrants to purchase, or securities convertible into or exchangeable for such securities) of CHC or any of the "Sellers" (as defined in the Hotel Purchase Agreement), (D) transaction in which any person shall acquire beneficial ownership, or the right to acquire beneficial ownership or any group shall have been formed which beneficially owns or has the right to acquire beneficial ownership of 25% or more of the outstanding voting capital stock of CHC or (E) any combination of the foregoing; provided however, that any offer or proposal relating to the transactions contemplated by the Transaction Agreements shall not constitute a "Purchase Proposal".

1.9 "Transfer" shall mean any sale, transfer, assignment, pledge, encumbrance or other disposition, including through any "short sale" or derivative transactions.

SECTION II

REPRESENTATIONS AND WARRANTIES OF THE STOCKHOLDERS

2.1 Representations and Warranties of the Stockholders. Each Stockholder represents and warrants, severally but not jointly, to HPT:

(a) Ownership of CHC Stock. Set forth in Schedule B opposite the name of such Stockholder are all shares of CHC Stock owned of record or beneficially by such Stockholder as of the date hereof. Except as set forth in Schedule B, (i) such Stockholder has the exclusive right to vote such securities in the manner required under this Agreement and (ii) there are no options, warrants or other rights, agreements, arrangements or commitments of

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any character to which such Stockholder is a party relating to the pledge, disposition or voting of any such securities (other than this Agreement) which would prevent such Stockholder from voting such securities in the manner required under this Agreement; provided that with respect to shares of CHC Stock held in the Discretionary Accounts, such representation is qualified by, subject to, and does not apply to the extent of, any rights of the beneficial owners or clients of the Discretionary Accounts to cause a Transfer of such securities or to have such securities returned to them and thereafter to vote or cause such securities to be voted.

(b) Organization of Certain Stockholders. If such Stockholder is a corporation, partnership, limited liability company or other entity, such Stockholder is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation or incorporation.

(c) Authority to Execute and Perform Agreements. Such Stockholder has the requisite power and authority required to enter into, execute and deliver this Agreement and to perform fully such Stockholder's obligations hereunder. The execution and delivery of this Agreement by such Stockholder have been duly authorized by all requisite organizational action, if

any, on the part of such Stockholder. This Agreement has been duly executed and delivered and constitutes the legal, valid and binding obligation of such Stockholder, enforceable against such Stockholder in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, or other laws affecting creditors' rights and remedies generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) No Conflicts; Consents.

(i) The execution and delivery by such Stockholder of this Agreement does not, and the consummation of the transactions contemplated hereby will not, conflict with or result in any violation of or default (with or without notice or lapse of time, or both) under (A) any contract, agreement or other binding arrangement to which such Stockholder is a party or (B) any judgment, order, writ, injunction or decree of any court, governmental body, administrative agency or arbitrator applicable to such Stockholder.

(ii) No consents, authorizations, orders or approvals of any governmental commission, board, or other regulatory body are required to be obtained or made by such Stockholder in connection with the execution and delivery by such Stockholder of this Agreement and the consummation of the transactions contemplated hereby.

(e) Investigation. Such Stockholder has had a full opportunity to review and discuss this Agreement and the Transaction Agreements and to ask all questions of HPT, SCH, CHC and CHC's directors and executive officers necessary in order for such Stockholder to make an informed decision to enter into this Agreement.

2.2 Representations and Warranties of HPT and SCH. Each of SCH and HPT, in each instance solely with respect to itself, represents and warrants to the Stockholders that (i) it is duly organized and validly existing under the laws of the jurisdiction of its formation, (ii) it has all necessary power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby, (iii) it has duly authorized, by all necessary action, the execution and delivery of this Agreement and the consummation of the transactions

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contemplated hereby by HPT and SCH, (iv) its execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not, conflict with or result in any violation of or default (with or without notice or lapse of time, or both) under (A) any contract, agreement or other binding arrangement to which it is a party or (B) any judgment, order, writ, injunction or decree of any court, governmental body, administrative agency or arbitrator applicable to it, (v) no consents, authorizations, orders or approvals of any governmental commission, board, or other regulatory body are required to be obtained or made by it in connection with its execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, and (vi) this Agreement has been duly executed and delivered and constitutes the legal, valid and binding obligation of it, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, or other laws affecting creditors' rights and remedies generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION III

VOTING; WAIVER OF RIGHTS

3.1 Agreement to Vote. Each Stockholder hereby agrees that, at any meeting of the stockholders of CHC, however called, and at every adjournment thereof, and in any action by written consent of the stockholders of CHC, to vote all of the shares of CHC Stock to which he is entitled to vote (including, without limitation, shares of any class of CHC Preferred Stock whether such

shares are to be voted separately as a class or, together with shares of other classes or on an as-converted basis, each in accordance with CHC's Charter Documents, as applicable):

(a) in favor of (i) approval of the terms of the transactions contemplated by the Transaction Agreements, with any modifications that are approved by such Stockholder, (ii) any action required to consummate such transactions and (iii) the adoption of the Plan of Dissolution of CSC in substantially the form attached hereto as Exhibit A with any modifications that are approved by such Stockholder, provided that each of the matters listed in clauses (i), (ii) and (iii) of this Section 3.1(a) are contemporaneously approved;

(b) against any Purchase Proposal;

(c) prior to the Effective Time, against any action or proposal involving CHC or any CHC subsidiary that is intended, or could reasonably be expected, to prevent, impede, interfere with, delay, postpone or adversely affect the transactions contemplated by the Transaction Agreements;

(d) in favor of the amendment to CHC's certificate of incorporation to change the name of CHC; and

(e) in favor of the adoption of the Certificate of Amendment of Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions thereof of Series A Cumulative Convertible Preferred Stock and Series B Cumulative Convertible Preferred Stock of CHC, in the form attached hereto as Exhibit B.

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SECTION IV

COVENANTS

4.1 No Disposition of Shares Prior to Effective Time. Each Stockholder covenants and agrees that, prior to the Effective Time, such Stockholder shall not Transfer any of the shares of CHC Stock set forth opposite his name on Schedule B as to which such Stockholder has or shares dispositive power; provided that with respect to shares of CHC Stock held in the Discretionary Accounts, such representation is qualified by, subject to, and does not apply to the extent of, any right of the beneficial owners or clients of the Discretionary Accounts to cause a Transfer of such securities or to have such securities returned to them and thereafter to vote or cause such securities to be voted.

4.2 Voting Arrangements. Each Stockholder covenants and agrees that, except pursuant to this Agreement, prior to the Effective Time such Stockholder shall:

(a) not act in concert with any Person to solicit or participate, directly or indirectly, in any solicitation of proxies or powers of attorney or similar rights to vote from any holder of CHC Stock, or with respect to any action, proposal, transaction or agreement that would reasonably be expected to lead to a Purchase Proposal, or to recommend that the Stockholders vote in favor of a Purchase Proposal except as otherwise expressly provided by Section 3 of this Agreement;

(b) not, directly or indirectly: (A) solicit, initiate, encourage, take any action to facilitate or induce any inquiry with respect to, or the making, submission or announcement of, any proposal or offer (including any proposal or offer to the Stockholders) that constitutes or may reasonably be expected to lead to any Purchase Proposal, (B) furnish to any Person other than HPT, SCH or their respective affiliates any information with respect to any Purchase Proposal (except as required by law or regulatory authority), (C) participate in or engage in discussions or negotiations with any Person with respect to any Purchase Proposal, except to notify such Person as to the existence of these provisions, (D) approve, endorse or recommend any Purchase Proposal, or (E) enter into any letter of intent or similar document or any agreement, commitment or understanding contemplating or otherwise relating to

any Purchase Proposal or a transaction contemplated thereby. Each Stockholder shall, and each Stockholder other than the Discretionary Accounts and J.P. Morgan Partners (SBIC), LLC (formerly known as Chase Venture Capital Associates, L.P.) shall cause its affiliates to, immediately cease and cause to be terminated all existing discussions or negotiations with any parties conducted heretofore with respect to a Purchase Proposal; and

(c) Notwithstanding any of the provisions of this Agreement, if a Stockholder is a member of the Board of Directors of CHC or has an officer, employee or other representative who is a member of the Board of Directors of CHC, nothing herein shall be construed to obligate such Stockholder or such officer, employee or representative to act in his capacity as a director in any manner which may conflict with such Stockholder's or such officer's, employee's or representative's fiduciary duties as a director of CHC.

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SECTION V

MISCELLANEOUS

5.1 Termination.

(a) This Agreement shall terminate, and none of the Parties hereto shall have any rights or obligations hereunder and this Agreement shall become null and void and have no effect upon the earliest to occur of (i) the consent of each of HPT, SCH and each Stockholder, (ii) the termination of either the Hotel Purchase Agreement or the Brand Purchase Agreement or (iii) February 28, 2004.

(b) This Agreement shall terminate with respect to a Discretionary Account and such Discretionary Account shall have no further obligations hereunder, at such time as shares of CHC Stock are no longer held in such Discretionary Account.

5.2 Notices. All notices, communications and deliveries required or permitted by this Agreement shall be made in writing signed by the Party making the same, shall specify the section of this Agreement pursuant to which it is given or being made, and shall be deemed given or made (i) on the date delivered if delivered by telecopy or in person, or (ii) on the day after it is delivered, prepaid, to an overnight express delivery service that confirms to the sender delivery on such day, as follows:

If to HPT, to:

Hospitality Properties Trust
400 Centre Street
Newton, Massachusetts 02458
Attn: John G. Murray
Telecopy No.: 617.969.5730

with a copy to:

Sullivan & Worcester LLP
One Post Office Square
Boston, Massachusetts 02109
Attn: Richard Teller
Telecopy No.: (617) 338-2880

If to SCH, to:

Six Continents Hotels, Inc.
Suite 100
Three Ravinia Drive
Atlanta, Georgia 30346-2149
Attn: Robert Gunkel

with copies to:

Six Continents Hotels, Inc.
Suite 100

Three Ravinia Drive
Atlanta, Georgia 30346-2149
Attn: Robert Jackman

Sutherland Asbill & Brennan LLP
999 Peachtree Street, N.E.
Suite 2300
Atlanta, Georgia 30309-3996
Attn: James Kacena, Esq.

If to the Stockholders, to:

such Stockholder at the address set forth on Schedule A;

with a copy to (only with respect to holders of CHC Preferred Stock):

Sullivan & Cromwell LLP
125 Broad Street
New York, NY 10004
Attn: John Evangelakos

or to such other representative or at such other address of a Party as such Party may furnish to the other Parties in writing.

5.3 Interpretation.

(a) When a reference is made in this Agreement to a section or schedule such reference shall be to a section or schedule of this Agreement unless otherwise clearly indicated to the contrary.

(b) The schedules and all documents expressly referred to in this Agreement are incorporated into this Agreement and are made a part of this Agreement as if set out in full.

(c) The titles and captions contained in this Agreement are inserted only as a matter of convenience and for reference and in no way define, limit, extend or describe the scope of this Agreement or the intent of any provision of this Agreement.

(d) The words "hereof", "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement.

(e) The plural of any defined term shall have a meaning correlative to such defined term, and words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(f) The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden

of proof shall arise favoring or disfavoring a Party by virtue of the authorship of any provision of this Agreement.

5.4 Assignment; Successors in Interest. This Agreement shall not be assigned by operation of law or otherwise without the prior written consent of each of the Parties. This Agreement shall be binding upon and shall inure to the benefit of the Parties and their successors and assigns, and any reference to a Party shall also be a reference to a successor or assign. For the avoidance of doubt, the preceding sentence shall not apply to any beneficial owner or client of a Discretionary Account to which shares of CHC Stock have been

returned.

5.5 No Third-Party Beneficiaries. With the exception of the Parties and Intercontinental Hotel Group Resources, Inc., which the Parties agree is an intended third party beneficiary to the extent a vote in favor of the transactions contemplated by the Brand Purchase Agreement is required, there shall exist no right of any Person to claim a beneficial interest in this Agreement or any rights occurring by virtue of this Agreement.

5.6 Amendments. To the extent permitted by law, this Agreement may be amended only by a subsequent writing signed by all of the Parties.

5.7 Controlling Law; Integration; Waiver; Waiver of Trial by Jury.

(a) This Agreement and the transactions contemplated hereby, and all disputes between the parties under or related to the Agreement or the facts and circumstances leading to its execution, whether in contract, tort or otherwise, shall be governed by and construed in accordance with the Laws of the State of Delaware, without regard to the application of Delaware principles of conflicts of laws.

(b) This Agreement supersedes all negotiations, agreements and understandings among the Parties with respect to the subject matter of this Agreement, constitutes the entire agreement among the Parties. The failure of any Party at any time or times to require performance of any provisions of this Agreement shall in no manner affect the right to enforce the same.

(c) No waiver by any Party of any conditions, or of the breach of any term, provision, warranty, representation, agreement or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or construed as a further or continuing waiver of any such condition or breach of any other term, provision, warranty, representation, agreement or covenant contained in this Agreement.

(d) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE IT HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT AND ANY OF THE AGREEMENTS DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (I) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE EITHER OF SUCH WAIVERS, (II) IT UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF SUCH WAIVERS, (III) IT MAKES SUCH

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WAIVERS VOLUNTARILY, AND (IV) IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 5.7(d).

5.8 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by law, the Parties waive any provision of law which renders any such provision prohibited or unenforceable in any respect.

5.9 Further Assurances. Each Party shall execute and deliver such additional documents as may be necessary or desirable to consummate the transactions contemplated by this Agreement.

5.10 Additional Stockholders. The Parties agree that, from time to time after the date hereof, additional Stockholders may be added as parties hereto by executing a counterpart of this Agreement or an instrument, reasonably acceptable to HPT, whereby such Stockholder shall join in and become a party to this Agreement as a Stockholder and shall agree to be bound by and to perform

all obligations of a Stockholder hereunder, without in either case further action by any Party. In each such event, the Schedules A and B shall be updated to reflect information relating to such Stockholder.

5.11 Specific Performance. The Parties agree that the remedy at law for any breach of this Agreement will be inadequate and that any Party by whom this Agreement is enforceable shall be entitled to specific performance in addition to any other appropriate relief or remedy. Such Party may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunctive or such other equitable relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law, each Party waives any objection to the imposition of such equitable relief on the basis that there is an adequate remedy at law.

5.12 Several and Not Joint Obligations. The obligations of the Stockholders under this Agreement are the several and not joint obligations, each Stockholder has made an individual and separate decision relating to his execution of this Agreement, and the Stockholders shall not by action of this Agreement (i) be deemed to be acting in concert or as a "group" (within the meaning of Section 13(d)(3) of the 1934 Act) or (ii) be deemed to have formed a partnership or joint venture.

5.13 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement or the terms of this Agreement to produce or account for more than one of such counterparts.

5.14 Declaration of Trust of HPT. The Declaration of Trust of HPT, a copy of which is duly filed with the Department of Assessments and Taxation of the State of Maryland, provides that the name "Hospitality Properties Trust" refers to the trustees under such Declaration of Trust collectively as trustees, but not individually or personally, and that no trustee, officer, stockholder, employee or agent of HPT shall be held to any personal liability, jointly or severally,

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for any obligation of, or claim against, HPT. All persons dealing with HPT in any way shall look only to the assets of HPT for the payment of any sum or the performance of any obligation.

5.15 Non-Recourse. Notwithstanding anything contained in this Agreement to the contrary, it is expressly understood and agreed by the parties hereto that each and every warranty, representation, covenant and agreement made in this Agreement on the part of any of the Stockholders which is a corporation, trust, partnership or limited liability company was not made or intended to be made as a personal or individual warranty, representation, covenant or agreement on the part of the incorporator or any stockholder (including any holder of preferred stock of CHC), director, officer, trustee, member, manager, agent, general or limited partner, past, present or future, of a Stockholder, and no personal or individual liability or responsibility is assumed by and no recourse at any time shall be asserted or enforced against, any such incorporator, stockholder (including any holder of preferred stock of CHC), director, officer, trustee, member, manager, agent, general or limited partner, past, present or future, of such Stockholder, or any of them, all of such recourse, whether in common law, in equity, by statute or otherwise) is hereby forever waived and released, provided that for purposes of obtaining specific performance only and for no other purpose whatsoever, this Agreement may be enforced against the general partner of any Stockholder which is a limited partnership and provided further that the provisions of this Section 5.15 shall have no application to any Stockholder who is a natural person with respect to whom the warranties, representations, covenants and agreements are personal and individual and against whom there shall be recourse and individual liability and responsibility.

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IN WITNESS WHEREOF, each of the parties hereto had caused this Agreement to be duly executed and delivered as of the day and year first above written.

Hospitality Properties Trust

By: /s/ John G. Murray

Name: John G. Murray
Title: President

Six Continents Hotels, Inc.

By: /s/ Stevan D. Porter

Name: Stevan D. Porter
Title: Chairman and President, The Americas

[Signature page to Voting Agreement]

STOCKHOLDER:

J.P. Morgan Partners (SBIC), LLC,
formerly known as
Chase Venture Capital Associates, L.P.

By: /s/ David Gilbert

Name: David Gilbert
Title: Managing Director

[Signature page to Voting Agreement]

STOCKHOLDER:

JPMorgan Chase Bank, formerly known
as Morgan Guaranty Trust Company of
New York, as Trustee of the
Commingled Pension Trust Fund
(Multi-Market Special Investment
Fund II) of JPMorgan Chase Bank

By: /s/ Joan Huggins

Name: Joan Huggins
Title: Vice President

[Signature page to Voting Agreement]

STOCKHOLDER:

JPMorgan Chase Bank, formerly known as Morgan
Guaranty Trust Company of New York, as Trustee
of the Multi-Market Special Investment Trust
Fund of JPMorgan Chase Bank

By: /s/ Joan Huggins

Name: Joan Huggins
Title: Vice President

[Signature page to Voting Agreement]

STOCKHOLDER:

JPMorgan Chase Bank, formerly known as Morgan
Guaranty Trust Company of New York, as
Investment Manager and Agent for the Alfred P.
Sloan Foundation (Multi-Market Account)

By: /s/ Joan Huggins

Name: Joan Huggins
Title: Vice President

[Signature page to Voting Agreement]

STOCKHOLDER:

Olympus Executive Fund, L.P.

By:

General Partner

By: /s/ Robert S. Morris

Name: Robert S. Morris
Title: Managing Member

[Signature page to Voting Agreement]

STOCKHOLDER:

Olympus Growth Fund II, L.P.

By:

General Partner

By: /s/ Robert S. Morris

Name: Robert S. Morris
Title: Managing Member

[Signature page to Voting Agreement]

STOCKHOLDER:

Peck's Management Partners Ltd.

By: Peck's Management Partners
as Investment Manager and Agent

By: /s/ Robert J. Cresci

Name: Robert J. Cresci
Title: Managing Director

[Signature page to Voting Agreement]

STOCKHOLDER:

Equity-Linked Investors-II

By: Rohit M. Desai Associates-II
General Partner

By: /s/ Frank J. Pados

Name: Frank J. Pados

Title: Attorney-In-Fact

[Signature page to Voting Agreement]

STOCKHOLDER:

Private Equity Investors III, L.P.

By: Rohit M. Desai Associates-II
General Partner

By: /s/ Frank J. Pados

Name: Frank J. Pados
Title: Attorney-In-Fact

[Signature page to Voting Agreement]

STOCKHOLDER:

MONY Life Insurance Company

By: J. ROMEO & CO. as nominee
for MONY Life Insurance Company

By: /s/ Raymond Duffy

Name: Raymond Duffy
Title: A Partner

[Signature page to Voting Agreement]

STOCKHOLDER:

Jack P. DeBoer

/s/ Jack P. DeBoer

Jack P. DeBoer

[Signature page to Voting Agreement]

STOCKHOLDER:

Arbor Lake Club, Ltd.

By: Lennar Commercial Properties, Inc.,
its General Partner

By: /s/ Jeffrey P. Krasnoff

Name: Jeffrey P. Krasnoff
Title: President

[Signature page to Voting Agreement]

SCHEDULE A

<TABLE>
<CAPTION>

STOCKHOLDER

ADDRESS

<S> <C>

J.P. Morgan Chase Partners (SBIC), LLC, formerly known as Chase Venture Capital Associates, L.P.

J.P. Morgan Partners
1221 Avenue of the Americas, 40th Floor
New York, New York 10020

JP Morgan Chase Bank, formerly known as Morgan Guaranty Trust Bank Company of New York, as Trustee of the Commingled Pension Trust Fund (Multi-Market Special Investment Fund II) of JPMorgan Chase Bank

JPMorgan Chase
270 Park Avenue
New York, New York 10017

JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York, as Trustee of the Multi-Market Special Investment Trust Fund of JPMorgan Chase Bank

JPMorgan Chase Bank
270 Park Avenue
New York, New York 10017

JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York, as Investment Manager and Agent for the Alfred P. Sloan Foundation (Multi-Market Account)

JPMorgan Chase Bank
270 Park Avenue
New York, New York 10017

Olympus Executive Fund, L.P.

Olympus Partners
Metro Center, One Station Place
Stamford, Connecticut 06902

Olympus Growth Fund II, L.P.

Olympus Partners
Metro Center, One Station Place
Stamford, Connecticut 06902

Peck's Management Partners, Ltd. (Peck's Management Partners as Investment Manager and Agent)

Peck's Management Partners, Ltd.
One Rockefeller Plaza
New York, New York 10020

MONY Life Insurance Company

MONY Life Insurance Company
1740 Broadway
New York, New York 10019

Equity-Linked Investors-II

Desai Capital Management Incorporated
410 Park Avenue
New York, New York 10022

Private Equity Investors III, L.P.

Desai Capital Management Incorporated
410 Park Avenue
New York, New York 10022

Jack P. DeBoer

Candlewood Hotel Company, Inc.
8621 E. 21st Street North
Suite 200
Wichita, Kansas 67206

Arbor Lake Club, Ltd.

c/o LNR Property Corporation
1601 Washington Avenue, Suite 800
Miami Beach, Florida 33139

</TABLE>

SCHEDULE B

<TABLE>
<CAPTION>

STOCKHOLDER	COMMON STOCK	SERIES A PREFERRED	SERIES B PREFERRED	OPTIONS/ WARRANTS
-----	-----	-----	-----	-----
<S> J.P. Morgan Partners (SBIC), LLC, formerly known as Chase Venture Capital Associates, L.P.	<C>	<C> 7,000	<C>	<C>
JP Morgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York, as Trustee of the Commingled Pension Trust Fund (Multi-Market Special Investment Fund II) of JPMorgan Chase Bank		7,000		
JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York, as Trustee of		1,500		

the Multi-Market Special Investment Trust Fund of
JPMorgan Chase Bank

JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York, as Investment Manager and Agent for the Alfred P. Sloan Foundation (Multi-Market Account)		1,500		
Olympus Executive Fund, L.P.		100	49	392
Olympus Growth Fund II, L.P.		9,900	4,841	38,728
Peck's Management Partners, Ltd. (Peck's Management Partners as Investment Manager and Agent)		7,000	7,900	63,200
MONY Life Insurance Company		3,250	3,000	24,000
Equity-Linked Investors-II		3,500	12,000	96,000
Private Equity Investors III, L.P.		3,500	12,000	96,000
Jack P. DeBoer	2,271,099	1,000		275,000
Arbor Lake Club, Ltd.		7,000		
	Total:	2,271,099	52,250	39,790
				593,320

</TABLE>

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

I, Jack P. DeBoer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Candlewood Hotel Company, 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)) 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) 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
 - c) 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 14, 2003

/s/ Jack P. DeBoer _____

Jack P. DeBoer
Chairman and Chief Executive Officer

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

I, Warren D. Fix, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Candlewood Hotel Company, 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)) 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) 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
 - c) 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 14, 2003

/s/ Warren D. Fix

Warren D. Fix
Executive Vice President and Chief
Financial Officer

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Candlewood Hotel Company, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2003

/s/ Jack P. DeBoer

Jack P. DeBoer
Chairman and Chief Executive Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of § 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Candlewood Hotel Company, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2003

/s/ Warren D. Fix

Warren D. Fix
Executive Vice President and
Chief Financial Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.