FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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FILER

EXTENDED STAY AMERICA INC

CIK:**1002579**| IRS No.: **363996573** | State of Incorp.:**DE** | Fiscal Year End: **1231**
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SIC: **7011** Hotels & motels

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	9547131600

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998

OR

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

Commission File No. 0-27360

EXTENDED STAY AMERICA, INC.
(Exact name of Registrant as specified in its charter)

Delaware	36-3996573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
450 E. Las Olas Boulevard, Ft. Lauderdale, Florida	33301
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (954) 713-1600

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

Title of Each Class	Name of Exchange On Which Registered
Common Stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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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 |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

The aggregate market value of the voting stock of the registrant held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was approximately $775,608,000 at March 22, 1999 (based on the closing sale price on the New York Stock Exchange, Inc. ("NYSE") on March 22, 1999). At March 22, 1999, the registrant had issued and outstanding an aggregate of 95,974,679 shares of common stock.

Documents Incorporated by Reference

Those sections or portions of the registrant's proxy statement for the Annual Meeting of Stockholders to be held on May 19, 1999, described in Part III hereof, are incorporated by reference in this report.

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PART I

ITEM 1. BUSINESS

Our Company

We develop, own, and operate extended stay lodging facilities which provide an affordable and attractive lodging alternative at a variety of price points for value-conscious guests. Our facilities are designed to offer a superior product at lower rates than most other lodging providers within their respective price segments. Our facilities feature fully furnished rooms which are generally rented on a weekly basis to guests such as business travelers, professionals on temporary work assignment, persons between domestic situations, and persons relocating or purchasing a home, with most guests staying for multiple weeks. On April 11, 1997, we completed a merger (the "Merger") with Studio Plus Hotels, Inc. ("SPH"). The Merger was accounted for as a pooling of interests and our business development and historical financial statements have been restated to include the operations and accounts of SPH, which is now one of our wholly-owned subsidiaries. In this Annual Report on Form 10-K, the words "Extended Stay America", "Company", "we", "our", "ours", and "us" refer to Extended Stay America, Inc. and its subsidiaries (including SPH), unless the context suggests otherwise.

Our goal is to be a national provider of extended stay lodging. We believe that the first companies to do so will benefit from establishing a brand name and customer awareness. We intend to achieve this goal by rapidly developing properties in selected markets, providing high value accommodations for our guests, actively managing our properties to increase revenues and reduce operating costs, and increasing customer awareness of our products. Through December 31, 1998, we had developed 294 extended stay lodging facilities, acquired 11 others, and had 51 facilities under construction. Beginning in 1999, we plan to open properties with total costs of approximately $350 million per year.

Extended Stay America was formed in 1995 as a Delaware corporation and our executive offices are located at 450 E. Las Olas Boulevard, Fort Lauderdale, Florida 33301. Our telephone number is (954) 713-1600.

Our Brands

We own and operate three brands in the extended stay lodging market--StudioPLUS(TM) hotels ("StudioPLUS"), EXTENDED STAYAMERICA Efficiency Studios ("EXTENDED STAY"), and Crossland Economy StudiosSM ("Crossland"). Each brand is designed to appeal to different price points below $500 per week. All three brands offer the same core components: a living/sleeping area; a fully-equipped kitchen or kitchenette; and a bathroom. EXTENDED STAY rooms are designed to compete in the economy category. Crossland rooms are typically smaller than EXTENDED STAY rooms and are targeted for the budget category, and StudioPLUS facilities serve the mid-price category and generally feature larger guest rooms, an exercise room, and a swimming pool.

Our Strategy

Our strategy is to maximize value to customers by providing a superior, newly-constructed, and well-maintained product at each price point while maintaining high operating margins. We attempt to achieve this goal through the following:

Create Brand Awareness. We believe that guests value a recognizable brand when selecting lodging accommodations. By positioning our brands as the first nationwide extended stay providers in their targeted price segments, we believe our brands will have a distinct advantage over their local and regional competitors. We also believe that our evolving national presence and high customer satisfaction ratings, coupled with selective advertising and promotion, will establish StudioPLUS, EXTENDED STAY, and Crossland as desirable and well recognized brands.

Provide a Superior Product at a Lower Price. Our facilities are designed to offer a superior product at lower rates than most other lodging providers within their respective price segments. Each of our brands is targeted to a different price point: StudioPLUS--$299 to $399 per week (daily equivalent--$43 to $57); EXTENDED STAY--$199 to $299 per week (daily equivalent--$29 to $43); and Crossland--$159 to $199 per week (daily equivalent--$23 to $29). Room rates at our facilities vary significantly depending upon market factors affecting their locations. These rates contrast with average daily rates in 1998 of $71, $54, and $45 for the mid-price, economy, and budget segments, respectively, of the traditional lodging industry.

Achieve Operating Efficiencies. We believe that the design and price level of our facilities attract guest stays of several weeks. This creates a more stable revenue stream which, together with low labor-cost amenities, should lead to reduced administrative and operational costs and higher operating margins. We also use sophisticated control and information systems to manage individual facility-specific factors, such as pricing, payroll, and occupancy levels, on a Company-wide basis.

Optimize Low Cost Amenities. We seek to provide the level of amenities needed to offer quality accommodations while maintaining high operating margins. Our facilities contain a variety of non-labor intensive features that are attractive to extended stay guests. These features include a fully-equipped kitchen or kitchenette, weekly housekeeping, color television with cable or satellite hook-up, coin-operated laundromat, and telephone service with voice mail messaging, and, at many StudioPLUS facilities, an exercise room and swimming pool. To help maintain affordability of room rates, labor-intensive services such as daily cleaning, room service, and restaurants are not provided.

Employ a Standardized Concept. We have developed standardized plans and specifications for our facilities. This provides for lower construction and purchasing costs and establishes uniform quality and operational standards. We also benefit from the experience of various members of our management team in rapidly developing and operating numerous commercial properties to a uniform set of design standards on a cost-effective basis.

Industry Overview

Traditional Lodging Industry

The U.S. lodging industry is estimated to have generated approximately $67 billion in annual room revenues in 1998 and had approximately 3.7 million rooms at the end of 1998. Industry statistics, which we believe to be reliable, indicate that the U.S. lodging industry's performance is strongly correlated to economic activity. Room supply and demand historically have been sensitive to shifts in economic growth, which has resulted in cyclical changes in average daily room and occupancy rates.

Overbuilding in the lodging industry in the mid and late 1980s, when approximately 500,000 rooms were added, resulted in an oversupply of rooms. We believe this oversupply and the general downturn in the economy led to depressed industry performance and a lack of capital available to the industry in the late 1980s and early 1990s. We believe that the lodging industry has since benefited from an improved supply and demand balance, as evidenced by the compound annual growth of 5% in revenue per available room from 1992 through 1998. The number of available rooms in the industry has grown at an average annual rate of 3.5% for the years 1996 through 1998, however, and the annual growth in revenue per available room has declined from 6.4% in 1996 to 3.6% in 1998. We believe that this decline in the growth rate of revenue per available room, along with concerns of a decline in the U.S. economy in general, resulted in a significant contraction in capital available for the development of new lodging products in 1998. As a result, we expect the rate of growth of new hotel rooms to moderate for the next few years.

The lodging industry generally can be segmented by the level of service provided and the pricing of the rooms. Segmentation by level of service is divided into the following categories:

- full service hotels, which offer food and beverage services, meeting rooms, room service, and similar guest services;

- limited service hotels, which generally offer only rooms with amenities such as swimming pools, continental breakfast, or similar limited services; and

- all-suite hotels, which generally have limited public spaces but provide guests with two rooms or distinct partitioned areas and which may or may not offer food and beverage service to guests.

The lodging industry may also be segmented by price level and is generally divided into categories based on average daily room rates, which in 1998 were $45 for budget, $54 for economy, $71 for mid-price, $91 for upscale, and $139 for luxury.

The all-suite segment of the lodging industry is a relatively new segment. It is principally oriented toward business travelers in the mid-price to upscale price levels. All-suite hotels were developed partially in response to the increasing number of corporate relocations, transfers, and temporary assignments and the need of business travelers for more than just a room. To address those needs, all-suite hotels began to offer suites with additional space and, in some cases, an efficiency kitchen. In addition, guests staying for extended periods of time were offered discounts to daily rates when they paid on a weekly or monthly basis. We believe the extended stay market in which we participate is an additional and emerging segment of the traditional lodging industry similar to the all-suite segment.

Extended Stay Market

We believe that extended stay hotels generally have higher operating margins, lower occupancy break-even thresholds, and higher returns on capital than traditional hotels. This is primarily a result of the typically longer length of stay, lower guest turnover, and lower operating expenses. We also believe the extended stay market is one of the most rapidly growing and underserved segments of the U.S. lodging industry, with demand for extended stay lodging significantly exceeding the current and anticipated near-term supply of dedicated extended stay rooms.

In September 1998, we announced the results of a recently completed analysis of extended stay lodging demand which was performed for us by PricewaterhouseCoopers. Their analysis indicated an estimate of total U.S. demand for extended stay properties of approximately 300,000 rooms. As of December 31, 1998, the inventory of dedicated extended stay rooms based on data provided by Smith Travel Research for the following extended stay hotel chains totaled approximately 138,000 rooms.

<TABLE>
<CAPTION>

Upscale Extended Stay Chains	Other Extended Stay Chains	
<S>	<C>	<C>
Hawthorn Suites(R)	Candlewood Hotel	MainStay Suites
Homewood Suites(R)	Crossland	Sierra Suites(R)
Residence Inn(R)	EXTENDED STAY	SpringHill Suites(TM)
Summerfield Suites(R)	Homegate Studios & Suites(R)	StayBridge Suites(SM)
Woodfin Suites(R)	Homestead Village(R)	StudioPLUS
	InnSuites Hotels	Suburban Lodge(R)
	Inn Town Suites	TownPlace Suites
	Lexington Hotel Suites(R)	Villager Lodges(R)

</TABLE>

We believe that these chains represent the majority of dedicated extended stay rooms available in the U.S. lodging industry.

An upscale extended stay room generally has a weekly rate of $500 or more. Our weekly room rates are generally less than $500. Approximately 38% of the supply of extended stay rooms were operated above our targeted price points and we owned approximately 38% of the rooms operated in our targeted price segments. The following table indicates the total rooms for the extended stay chains listed above, the total rooms for the upscale chains, and the total rooms owned by us at the end of each of the last three years.

	1996	1997	1998
Total extended stay rooms available......	60,000	93,000	138,000
Upscale extended stay rooms.............	36,000	43,000	53,000
Extended stay rooms owned by us.........	8,000	19,000	32,000

We believe the continuing significant demand/supply imbalance and the longer average length of stay have caused occupancy rates for extended stay hotels to significantly exceed occupancy rates in the overall U.S. lodging industry. The table below shows that average occupancy rates for extended stay hotel chains have exceeded the rates in the overall U.S. lodging industry for each of the previous five years based on data provided by Smith Travel Research.

	Year Ended December 31,				
	1994	1995	1996	1997	1998
Average Occupancy Rates:					
Extended Stay Hotel Chains	80.5%	79.8%	78.3%	74.7%	71.6%
All U.S. Lodging Industry	64.9	65.2	65.1	64.5	64.0

We believe the decline in occupancy rates for extended stay hotel chains since 1995 is in part the result of an increase in the proportion of newly-opened hotels, which generally experience lower occupancies during their pre-stabilization period. The table below shows that, while there has been rapid growth in available room nights for both the extended stay market in general and for us in particular, there has also been rapid growth in occupied room nights. This indicates that much of the new construction in the extended stay market has been absorbed.

	Increase in 1997	Percentage Increase from Prior Year	Increase in 1998	Percentage Increase from Prior Year
Extended Stay Hotel Chains:				
Available Room Nights	7,200,000	44.0%	14,200,000	55.9%
Occupied Room Nights	5,200,000	37.5	9,400,000	49.4
Our Facilities:				
Available Room Nights	3,200,000	232.0	4,700,000	101.7
Occupied Room Nights	2,400,000	233.8	3,400,000	100.0

As a segment of the total U.S. lodging industry, extended stay hotel chains experienced a significant contraction in the availability of capital during 1998. As a result, we expect the growth in available dedicated extended stay rooms to moderate for the next few years.

Property Development

Our goal is to become a national provider of extended stay facilities through a rapid development program. We believe that the first companies to do so will benefit from establishing a brand name and customer awareness. We expect that our primary means of expansion will be the construction and development of new extended stay lodging facilities. We have also acquired, and we may make additional acquisitions of, existing extended stay lodging facilities or other properties that we can convert to the extended stay concept.

Our strategy is to expand nationally into regions of the country that contain the demographic factors we think are necessary to support one or more of our facilities. We target sites that generally have a large and/or growing population in the surrounding area with a large employment base. These sites also generally have good visibility from a major traffic artery and are in close proximity to convenience stores, restaurants, and shopping centers.

Our development is conducted through six regional offices located in Signal Hill, California; Chicago, Illinois; Clayton, Missouri; Spartanburg, South Carolina; Dallas, Texas; and Vienna, Virginia. From these regional offices, we have approximately 15 real estate professionals and approximately 20 construction professionals who perform site selection, entitlement, and construction activities according to our established criteria and procedures. It generally takes us at least twenty-two months to identify a site and complete construction of a facility. We try to minimize our capital outlays incurred in this process until after the commencement of construction.

The site selection process includes assessing the characteristics of a market area based on our development standards, identifying sites for development within a qualified market area, and negotiating an option to purchase qualified sites. Although the time required to complete the selection process in a market varies significantly based on local market conditions, we typically need approximately six months to assess a market and obtain an option to purchase a site in a qualified market.

After we obtain an option to purchase a site, our legal, environmental, and business due diligence begins. During this period, our real estate and construction professionals evaluate whether the site is financially suitable for development, obtain necessary approvals and permits, and negotiate construction contracts with third party general contractors. It generally takes us eight months to complete this process, however, the time needed can vary significantly by market area due to local regulations and restrictions.

The site selection and due diligence processes are reviewed periodically by our senior management and our approval to begin construction is based on a detailed review of the demographic, physical, and financial qualifications of each site. Once our senior management approves the development of a site, it is purchased, the construction contract is executed, and construction generally begins immediately. We use a number of general contractors. The selection of a contractor for a specific site depends upon the geographic area, the negotiated construction costs, and the financial and physical capacities of the contractors. The construction process is regularly inspected by our construction professionals to monitor both the quality and timeliness of completion of construction. Although the construction period varies significantly based on local construction requirements and weather conditions, it generally takes us eight months to complete construction once it has begun.

Our development status as of December 31, 1998 was as follows:

	StudioPLUS		EXTENDED STAY		Crossland		Total	
	Properties	Rooms	Properties	Rooms	Properties	Rooms	Properties	Rooms
Operating..................	91	7,018	181	20,889	33	4,282	305	32,189
Under Construction..........	14	1,182	31	3,355	6	783	51	5,320

The design plans for our lodging facilities call for a newly-constructed apartment style complex. They generally consist of two- to four-story buildings with laundromat and office areas and use interior and exterior corridor building designs, depending primarily on local zoning and weather factors. All three of our brands offer the same core components: a living/sleeping area; a fully-equipped kitchen or kitchenette with a refrigerator, stovetop, microwave, and sink; and a bathroom. The typical building design criteria for each of our brands is shown in the table below:

	Average Number Of Rooms	Average Living Space Per Room (Ft.2)
StudioPLUS......................	80	425
EXTENDED STAY...................	100	300
Crossland.......................	120	225

The actual number of rooms and living space per room may vary significantly depending on location and date of construction. In addition, each facility may include certain non-standard room types.

Property Operations

Each of our facilities employs a property manager who is responsible for the operations of that particular property. The property manager shares duties with and oversees a staff typically consisting of an assistant manager, a desk clerk, a maintenance person, and a housekeeping/laundry staff of approximately 2-10 persons (many of whom are part-time employees). The office at each of our facilities is generally open daily as follows: Crossland--from 8:00 a.m. to 7:00 p.m.; EXTENDED STAY--from 7:00 a.m. to 11:00 p.m.; and StudioPLUS--from 7:00 a.m. to 11:00 p.m., although an employee normally is on duty at all facilities twenty-four hours a day to respond to guests' needs.

The majority of daily operational decisions are made by the property managers. Each property manager is under the supervision of one of our district managers, who typically are responsible for five to seven facilities, depending on geographic location. Our district managers oversee the performance of our property managers in such areas as guest service, property maintenance, and payroll and cost control. The district managers report to a regional director who is responsible for the supervision of 8-10 district managers. The regional directors report to our Vice

President of Operations, who is responsible for implementing all operational and strategic policies for our brands. Each facility is evaluated against a detailed revenue and expense budget, as well as against the performance of our other facilities. Our corporate offices use sophisticated information systems to support the district managers and regional directors.

Marketing Strategy

We believe that guests value a recognizable brand when selecting lodging accommodations. To date, we have created brand awareness primarily by increasing the number of hotels through a rapid national development program, with sites that typically are in highly-visible locations. We also have approximately 20 national and regional sales representatives that call on national and local corporate customers to promote our brands. We have established a toll free reservation number (1-800-EXT-STAY) and a web site (www.extstay.com) to provide information about our locations and to reserve rooms. We think that we can increase demand for our facilities by building awareness for both the extended stay concept as well as our various brands.

Lodging Facilities

At December 31, 1998, we had 305 extended stay lodging facilities in operation (91 StudioPLUS, 181 EXTENDED STAY, and 33 Crossland) and 51 facilities under construction (14 StudioPLUS, 31 EXTENDED STAY, and 6 Crossland) in a total of 38 states. The following table shows certain information regarding those facilities.
<TABLE>
<CAPTION>

City	Brand	Date Opened or Acquired	Number of Rooms
ALABAMA			
Birmingham	StudioPLUS	March 1996	71
Birmingham	StudioPLUS	May 1996	71
Huntsville	EXTENDED STAY	July 1997	108
Mobile	EXTENDED STAY	May 1997	114
Montgomery	EXTENDED STAY	August 1997	120
Montgomery	StudioPLUS	February 1996	71
ARIZONA			
Chandler	EXTENDED STAY	September 1998	101
Mesa	EXTENDED STAY	December 1997	104
Peoria	EXTENDED STAY	December 1998	101
Phoenix	Crossland	September 1998	133
Phoenix	EXTENDED STAY	January 1998	101
Phoenix	EXTENDED STAY	July 1998	104
Scottsdale	EXTENDED STAY	June 1997	120
Tucson	Crossland	April 1998	117
Tucson	EXTENDED STAY	April 1997	120
ARKANSAS			
Little Rock	EXTENDED STAY	September 1996	120
Little Rock	StudioPLUS	November 1997	84
CALIFORNIA			
Alameda	StudioPLUS	Under Construction	87
Arcadia	EXTENDED STAY	April 1998	122
Bakersfield	EXTENDED STAY	November 1996	120
Fremont	EXTENDED STAY	December 1998	119
Fremont	StudioPLUS	Under Construction	81
Fresno	Crossland	November 1998	128
Fresno	EXTENDED STAY	July 1997	120

Gardena..	Crossland	December 1998	137

</TABLE>

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<CAPTION>

City	Brand	Date Opened or Acquired	Number of Rooms
Huntington Beach................................	EXTENDED STAY	December 1998	104
La Mirada......................................	EXTENDED STAY	June 1998	104
Lake Forest....................................	EXTENDED STAY	September 1997	119
Livermore......................................	EXTENDED STAY	January 1998	122
Long Beach.....................................	EXTENDED STAY	November 1997	134
Los Angeles....................................	EXTENDED STAY	Under Construction	133
Los Angeles....................................	EXTENDED STAY	Under Construction	122
Milpitas.......................................	EXTENDED STAY	January 1998	146
Morgan Hill....................................	EXTENDED STAY	December 1998	92
Oceanside......................................	EXTENDED STAY	Under Construction	101
Ontario..	EXTENDED STAY	May 1997	127
Pleasant Hill..................................	EXTENDED STAY	August 1997	122
Rancho Cordova.................................	Crossland	November 1998	129
Rancho Cordova.................................	EXTENDED STAY	June 1997	132
Roseville......................................	EXTENDED STAY	August 1998	122
Sacramento.....................................	EXTENDED STAY	March 1997	120
Sacramento.....................................	EXTENDED STAY	August 1997	120
San Dimas......................................	EXTENDED STAY	Under Construction	104
Santa Rosa.....................................	EXTENDED STAY	June 1997	114
Santa Barbara..................................	EXTENDED STAY	January 1998	104
Torrance.......................................	EXTENDED STAY	December 1997	122
COLORADO			
Aurora...	Crossland	December 1998	133
Colorado Springs...............................	Crossland	November 1998	133
Colorado Springs...............................	EXTENDED STAY	September 1998	104
Englewood......................................	StudioPLUS	August 1998	71
Glendale.......................................	Crossland	July 1998	129
Lakewood.......................................	EXTENDED STAY	November 1996	120
Lakewood.......................................	EXTENDED STAY	January 1997	147
Thornton.......................................	Crossland	Under Construction	133
CONNECTICUT			
Farmington.....................................	StudioPLUS	December 1998	90
FLORIDA			
Clearwater.....................................	EXTENDED STAY	March 1998	104
Daytona Beach..................................	StudioPLUS	August 1998	72
Deerfield Beach................................	EXTENDED STAY	December 1997	104
Fort Lauderdale................................	Crossland	Under Construction	128
Fort Lauderdale................................	EXTENDED STAY	March 1998	108
Fort Lauderdale................................	EXTENDED STAY	Under Construction	117
Fort Lauderdale................................	StudioPLUS	Under Construction	73
Gainesville....................................	EXTENDED STAY	July 1997	120
Jacksonville...................................	EXTENDED STAY	May 1997	122
Jacksonville...................................	StudioPLUS	July 1998	72
Maitland.......................................	EXTENDED STAY	Under Construction	104
Maitland.......................................	StudioPLUS	Under Construction	81
Melbourne......................................	StudioPLUS	October 1998	84
Orlando..	Crossland	Under Construction	139
Orlando..	EXTENDED STAY	November 1997	119
Orlando..	EXTENDED STAY	Under Construction	122

</TABLE>

<TABLE>
<CAPTION>

City	Brand	Date Opened or Acquired	Number of Rooms

Orlando	StudioPLUS	June 1998	83
Orlando	StudioPLUS	Under Construction	111
Pensacola	EXTENDED STAY	September 1997	101
Tallahassee	StudioPLUS	January 1998	58
Tampa	StudioPLUS	Under Construction	85
Temple Terrace	EXTENDED STAY	August 1997	101
West Palm Beach	StudioPLUS	November 1998	72
GEORGIA			
Alpharetta	EXTENDED STAY	Under Construction	101
Alpharetta	StudioPLUS	July 1997	91
Atlanta	EXTENDED STAY	April 1998	104
Atlanta	StudioPLUS	December 1997	96
Columbus	EXTENDED STAY	January 1997	108
Duluth	EXTENDED STAY	September 1997	119
Kennesaw	EXTENDED STAY	December 1998	104
Kennesaw	StudioPLUS	December 1997	83
Lawrenceville	EXTENDED STAY	June 1996	121
Macon	StudioPLUS	March 1998	72
Marietta	EXTENDED STAY	August 1995	121
Marietta	EXTENDED STAY	January 1998	113
Morrow	EXTENDED STAY	June 1998	104
Norcross	EXTENDED STAY	January 1996	199
Norcross	EXTENDED STAY	February 1996	133
Norcross	StudioPLUS	March 1997	72
Riverdale	EXTENDED STAY	February 1996	147
IDAHO			
Boise	EXTENDED STAY	January 1997	107
ILLINOIS			
Buffalo Grove	EXTENDED STAY	February 1998	122
Burr Ridge	EXTENDED STAY	November 1996	119
Champaign	EXTENDED STAY	September 1998	89
Darien	EXTENDED STAY	Under Construction	104
Des Plaines	EXTENDED STAY	March 1998	122
Des Plaines	StudioPLUS	Under Construction	87
Downers Grove	EXTENDED STAY	May 1996	154
Elmhurst	EXTENDED STAY	August 1997	117
Gurnee	EXTENDED STAY	January 1997	101
Hanover Park	EXTENDED STAY	Under Construction	104
Itasca	EXTENDED STAY	November 1996	125
Lansing	EXTENDED STAY	November 1998	122
Lombard	StudioPLUS	March 1998	97
Naperville	EXTENDED STAY	November 1996	125
O'Fallon	EXTENDED STAY	September 1998	89
Rockford	EXTENDED STAY	September 1997	104
Rockford	StudioPLUS	November 1997	72
Rolling Meadows	EXTENDED STAY	October 1996	125
Romeoville	EXTENDED STAY	October 1998	101
Schaumburg	EXTENDED STAY	Under Construction	104
Waukegan	Crossland	November 1997	121

City	Brand	Date Opened or Acquired	Number of Rooms
INDIANA			
Evansville	StudioPLUS	February 1997	71
Fort Wayne	EXTENDED STAY	September 1997	101
Fort Wayne	StudioPLUS	December 1996	71
Indianapolis	EXTENDED STAY	October 1998	107
Indianapolis	StudioPLUS	August 1990	71
Indianapolis	StudioPLUS	March 1991	71
Merrillville	EXTENDED STAY	November 1996	105
Mishawaka	StudioPLUS	September 1997	72

IOWA			
Des Moines......................................	StudioPLUS	December 1997	85
Urbandale.......................................	EXTENDED STAY	Under Construction	104
KANSAS			
Lenexa..	EXTENDED STAY	May 1996	59
Overland Park...................................	EXTENDED STAY	September 1997	119
Wichita...	StudioPLUS	December 1997	72
KENTUCKY			
Covington.......................................	EXTENDED STAY	December 1997	105
Florence..	EXTENDED STAY	October 1997	101
Florence..	StudioPLUS	September 1996	71
Lexington.......................................	EXTENDED STAY	September 1996	126
Lexington.......................................	StudioPLUS	July 1986	59
Lexington.......................................	StudioPLUS	August 1987	71
Louisville......................................	EXTENDED STAY	October 1996	120
Louisville......................................	StudioPLUS	December 1988	75
Louisville......................................	StudioPLUS	April 1989	65
LOUISIANA			
Baton Rouge.....................................	Crossland	June 1998	129
Bossier City....................................	Crossland	September 1997	117
Lafayette.......................................	EXTENDED STAY	November 1998	104
Lake Charles....................................	Crossland	August 1997	117
Metairie..	EXTENDED STAY	August 1998	102
MARYLAND			
Columbia..	EXTENDED STAY	October 1997	104
Columbia..	StudioPLUS	December 1997	94
Frederick.......................................	EXTENDED STAY	Under Construction	101
Gaithersburg....................................	EXTENDED STAY	Under Construction	101
Gaithersburg....................................	StudioPLUS	Under Construction	87
Landover..	EXTENDED STAY	July 1998	104
Linthicum.......................................	EXTENDED STAY	June 1997	122
Milestone.......................................	EXTENDED STAY	Under Construction	104
Timonium..	EXTENDED STAY	June 1998	104
MASSACHUSETTS			
Danvers...	EXTENDED STAY	February 1998	104
MICHIGAN			
Ann Arbor.......................................	EXTENDED STAY	May 1997	112
Ann Arbor.......................................	StudioPLUS	December 1997	70

</TABLE>

<TABLE>
<CAPTION>

City	Brand	Date Opened or Acquired	Number of Rooms
<S>	<C>	<C>	<C>
Auburn Hills....................................	EXTENDED STAY	February 1997	133
Farmington Hills................................	EXTENDED STAY	June 1997	113
Kentwood..	EXTENDED STAY	September 1998	104
Livonia...	Crossland	August 1998	127
Madison Heights.................................	EXTENDED STAY	May 1997	122
Novi..	EXTENDED STAY	January 1997	125
Sterling Heights................................	EXTENDED STAY	November 1997	116
Warren..	StudioPLUS	November 1997	58
MINNESOTA			
Bloomington.....................................	EXTENDED STAY	April 1998	104
Brooklyn Center.................................	EXTENDED STAY	November 1998	104
Eagan...	EXTENDED STAY	September 1997	104
Eden Prairie....................................	EXTENDED STAY	January 1998	104
Maple Grove.....................................	EXTENDED STAY	January 1998	104
Woodbury..	EXTENDED STAY	Under Construction	104
MISSISSIPPI			
Jackson...	EXTENDED STAY	October 1997	108
Ridgeland.......................................	StudioPLUS	November 1996	71

MISSOURI			
Earth City......................................	StudioPLUS	June 1997	72
Hazelwood.......................................	EXTENDED STAY	November 1996	122
Hazelwood.......................................	StudioPLUS	June 1992	71
Independence....................................	Crossland	January 1997	120
Kansas City.....................................	Crossland	Under Construction	133
Kansas City.....................................	EXTENDED STAY	January 1997	109
Kansas City.....................................	EXTENDED STAY	June 1997	119
Maryland Heights................................	EXTENDED STAY	August 1996	150
Springfield.....................................	EXTENDED STAY	October 1997	110
St. Louis.......................................	StudioPLUS	November 1994	71
St. Peters......................................	EXTENDED STAY	July 1997	122
NEBRASKA			
Omaha...	StudioPLUS	December 1997	85
NEVADA			
Las Vegas.......................................	EXTENDED STAY	July 1996	123
Las Vegas.......................................	EXTENDED STAY	July 1996	211
Las Vegas.......................................	EXTENDED STAY	July 1996	177
Las Vegas.......................................	EXTENDED STAY	July 1996	123
NEW JERSEY			
Cherry Hill.....................................	EXTENDED STAY	July 1998	77
East Rutherford.................................	EXTENDED STAY	Under Construction	127
Edison..	EXTENDED STAY	August 1997	134
Maple Shade.....................................	Crossland	December 1998	129
Mount Laurel....................................	EXTENDED STAY	January 1998	77
Mount Laurel....................................	StudioPLUS	Under Construction	84
South Brunswick.................................	EXTENDED STAY	Under Construction	133

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City	Brand	Date Opened or Acquired	Number of Rooms
<S>	<C>	<C>	<C>
NEW MEXICO			
Albuquerque.....................................	Crossland	January 1998	129
Albuquerque.....................................	Crossland	Under Construction	121
Rio Rancho......................................	EXTENDED STAY	May 1998	101
NEW YORK			
Albany..	EXTENDED STAY	November 1996	134
Amherst...	EXTENDED STAY	September 1997	119
Bethpage..	EXTENDED STAY	Under Construction	104
East Syracuse...................................	EXTENDED STAY	December 1996	121
Rochester.......................................	EXTENDED STAY	November 1996	125
Rochester.......................................	EXTENDED STAY	December 1996	127
NORTH CAROLINA			
Asheville.......................................	EXTENDED STAY	February 1998	101
Cary..	EXTENDED STAY	January 1998	122
Cary..	StudioPLUS	September 1996	71
Cary..	StudioPLUS	January 1998	82
Charlotte.......................................	EXTENDED STAY	April 1998	113
Charlotte.......................................	EXTENDED STAY	October 1998	101
Charlotte.......................................	StudioPLUS	May 1995	71
Charlotte.......................................	StudioPLUS	March 1996	71
Durham..	Crossland	September 1998	129
Durham..	EXTENDED STAY	October 1997	120
Durham..	StudioPLUS	December 1996	71
Durham..	StudioPLUS	September 1998	84
Fayetteville....................................	EXTENDED STAY	July 1997	120
Fayetteville....................................	StudioPLUS	Under Construction	77
Greensboro......................................	EXTENDED STAY	September 1996	129
Greensboro......................................	StudioPLUS	December 1995	71
Greensboro......................................	StudioPLUS	Under Construction	84
Jacksonville....................................	EXTENDED STAY	October 1998	98

Morrisville..	EXTENDED STAY	September 1997	120
Pineville..	EXTENDED STAY	Under Construction	107
Pineville..	StudioPLUS	Under Construction	77
Raleigh..	EXTENDED STAY	December 1997	104
Raleigh..	StudioPLUS	December 1996	71
Wilmington...	EXTENDED STAY	February 1998	104
Winston-Salem......................................	Crossland	July 1998	133
Winston-Salem......................................	EXTENDED STAY	September 1996	111
OHIO			
Blue Ash...	Crossland	December 1998	132
Blue Ash...	StudioPLUS	December 1991	71
Columbus...	EXTENDED STAY	June 1997	119
Columbus...	EXTENDED STAY	December 1998	97
Columbus...	EXTENDED STAY	Under Construction	104
Columbus...	StudioPLUS	August 1989	71
Copley...	EXTENDED STAY	February 1997	95
Copley...	StudioPLUS	November 1996	71
Dayton...	StudioPLUS	November 1989	70
Dublin...	EXTENDED STAY	January 1998	104
Dublin...	StudioPLUS	May 1990	71
Fairborn...	StudioPLUS	January 1997	71

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<TABLE>
<CAPTION>

City	Brand	Date Opened or Acquired	Number of Rooms
<S>	<C>	<C>	<C>
Fairfield..	StudioPLUS	June 1989	71
Holland..	EXTENDED STAY	January 1997	125
Maumee...	StudioPLUS	June 1997	72
Middlebury Heights.................................	StudioPLUS	November 1997	70
North Olmsted......................................	StudioPLUS	September 1997	91
Sharonville..	EXTENDED STAY	July 1996	130
Springdale...	EXTENDED STAY	November 1996	126
Springdale...	StudioPLUS	November 1988	71
Westlake...	StudioPLUS	November 1997	72
OKLAHOMA			
Oklahoma City......................................	EXTENDED STAY	September 1997	101
Oklahoma City......................................	EXTENDED STAY	Under Construction	110
Oklahoma City......................................	StudioPLUS	January 1998	70
Tulsa..	EXTENDED STAY	April 1997	120
Tulsa..	StudioPLUS	June 1997	72
OREGON			
Beaverton..	EXTENDED STAY	October 1998	122
Portland...	EXTENDED STAY	January 1998	104
Salem..	Crossland	October 1998	129
Springfield..	Crossland	November 1997	127
PENNSYLVANIA			
Bensalem...	EXTENDED STAY	June 1998	101
Carnegie...	EXTENDED STAY	June 1997	116
Exton..	EXTENDED STAY	Under Construction	101
Great Valley.......................................	EXTENDED STAY	Under Construction	104
Philadelphia.......................................	EXTENDED STAY	February 1998	145
Philadelphia.......................................	StudioPLUS	May 1998	82
Pittsburgh...	StudioPLUS	April 1998	84
SOUTH CAROLINA			
Charleston...	StudioPLUS	September 1996	71
Columbia...	EXTENDED STAY	April 1996	120
Columbia...	EXTENDED STAY	May 1997	120
Columbia...	StudioPLUS	December 1995	71
Greenville...	EXTENDED STAY	December 1996	109
Greenville...	StudioPLUS	February 1995	71
Mt. Pleasant.......................................	EXTENDED STAY	January 1998	101
North Charleston...................................	EXTENDED STAY	August 1996	126
Spartanburg..	EXTENDED STAY	August 1995	126

TENNESSEE			
Brentwood	EXTENDED STAY	September 1996	120
Brentwood	StudioPLUS	December 1990	71
Chattanooga	EXTENDED STAY	July 1996	120
Cordova	StudioPLUS	December 1996	71
Knoxville	EXTENDED STAY	May 1997	96
Knoxville	StudioPLUS	September 1990	71
Memphis	EXTENDED STAY	January 1997	126
Memphis	EXTENDED STAY	Under Construction	104
Memphis	StudioPLUS	October 1990	71
Nashville	Crossland	October 1997	117

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<TABLE>
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City	Brand	Date Opened or Acquired	Number of Rooms
<S>	<C>	<C>	<C>
Nashville	EXTENDED STAY	February 1997	114
Nashville	StudioPLUS	September 1993	71
TEXAS			
Arlington	StudioPLUS	September 1997	137
Austin	Crossland	August 1998	139
Austin	EXTENDED STAY	Under Construction	102
Austin	StudioPLUS	January 1998	84
Bedford	StudioPLUS	December 1998	84
Corpus Christi	StudioPLUS	July 1998	72
Dallas	EXTENDED STAY	November 1998	116
Dallas	EXTENDED STAY	December 1998	104
Dallas	StudioPLUS	September 1997	97
El Paso	StudioPLUS	January 1997	120
El Paso	StudioPLUS	December 1997	72
Farmers Branch	StudioPLUS	October 1998	82
Fort Worth	Crossland	December 1998	121
Fort Worth	EXTENDED STAY	Under Construction	104
Fort Worth	StudioPLUS	July 1998	72
Fort Worth	StudioPLUS	October 1998	84
Houston	Crossland	May 1998	145
Houston	Crossland	June 1998	145
Houston	EXTENDED STAY	September 1998	122
Houston	EXTENDED STAY	September 1998	122
Houston	EXTENDED STAY	December 1998	101
Houston	EXTENDED STAY	December 1998	104
Houston	EXTENDED STAY	Under Construction	110
Houston	EXTENDED STAY	Under Construction	110
Houston	StudioPLUS	September 1997	85
Houston	StudioPLUS	December 1997	97
Houston	StudioPLUS	December 1997	84
Houston	StudioPLUS	July 1998	84
Irving	Crossland	June 1998	139
Irving	StudioPLUS	January 1998	116
Mesquite	Crossland	December 1998	138
Plano	StudioPLUS	December 1997	72
Round Rock	Crossland	December 1998	138
San Antonio	StudioPLUS	February 1998	84
Spring	Crossland	June 1998	141
UTAH			
Midvale	EXTENDED STAY	September 1997	134
Sandy	EXTENDED STAY	January 1998	122
West Valley City	EXTENDED STAY	August 1997	122
VIRGINIA			
Alexandria	EXTENDED STAY	Under Construction	104
Chesapeake	EXTENDED STAY	August 1996	132
Glen Allen	StudioPLUS	July 1997	91
Newport News	EXTENDED STAY	December 1996	120
Newport News	StudioPLUS	July 1997	72
Richmond	EXTENDED STAY	December 1997	108

Richmond	StudioPLUS	Under Construction	81
Roanoke	EXTENDED STAY	February 1998	90

City	Brand	Date Opened or Acquired	Number of Rooms
Sterling	EXTENDED STAY	July 1998	101
Virginia Beach	EXTENDED STAY	September 1996	120
WASHINGTON			
Bellevue	EXTENDED STAY	January 1998	148
Everett	EXTENDED STAY	April 1997	104
Everett	StudioPLUS	Under Construction	87
Federal Way	EXTENDED STAY	Under Construction	101
Fife	EXTENDED STAY	October 1997	104
Kent	Crossland	September 1998	133
Kent	EXTENDED STAY	September 1998	120
Lynnwood	EXTENDED STAY	February 1998	109
Puyallup	Crossland	November 1998	133
Renton	StudioPLUS	June 1998	109
Spokane	Crossland	May 1998	115
Tacoma	Crossland	Under Construction	129
Tacoma	EXTENDED STAY	May 1998	109
Tukwilla	EXTENDED STAY	January 1997	96
Vancouver	EXTENDED STAY	September 1997	116
WISCONSIN			
Appleton	EXTENDED STAY	June 1997	107
Madison	EXTENDED STAY	September 1998	104
Madison	StudioPLUS	September 1998	72
Waukesha	EXTENDED STAY	August 1997	122
Wauwatosa	EXTENDED STAY	June 1997	122

Competition

The lodging industry is highly competitive. This competition is based on a number of factors including room rates, quality of accommodations, service levels, convenience of location, reputation, reservation systems, name recognition, and supply and availability of alternative lodging in local markets, including short-term lease apartments and limited service hotels. All of our facilities are located in developed areas and compete with budget, economy, and mid-price segment hotels and other companies focusing on the extended stay market. The greater the number of competitive lodging facilities in a particular area, the more likely it is that those competitors may have a material adverse effect on the occupancy levels and average weekly room rates of our facilities.

We expect that competition within the budget, economy, and mid-price segments of the extended stay lodging market will continue to increase. Although we expect the contraction of capital available to the lodging industry during 1998 to slow the rate of growth of new lodging products in general, we expect our existing competitors to continue to develop extended stay facilities to the extent that their capital permits and we expect them to increase their development in the event that additional capital should become available in the future. Competitors may include new participants in the lodging industry generally and participants in other segments of the lodging industry that may enter the extended stay market. They may also include existing participants in the extended stay market that may increase their product offerings to include facilities in the budget, economy, or mid-price segments. Competition is for both quality locations to build new facilities and for guests to fill and pay for those facilities. A number of our competitors have greater financial resources than we do and better relationships with lenders and sellers, and may therefore be able to find and develop the best sites before we can. There can also be no assurance that our competitors will not reduce their rates, offer greater convenience, services, or amenities, or build new hotels in direct competition with our existing facilities, all of which could have a material adverse effect on our operations.

Environmental Matters

Under various federal, state, and local laws and regulations, an owner or operator of real estate may be liable for the costs of removal or remediation of hazardous or toxic substances on such property. These laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of those hazardous or toxic substances. Furthermore, a person that arranges for the disposal or transports for disposal or treatment a hazardous substance at a property owned by another may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property. These costs may be substantial, and the presence of hazardous substances, or the failure to properly remediate hazardous substances, may adversely affect the owner's ability to sell the real estate or to borrow using that real estate as collateral. We may be liable for any of these costs that occur in connection with our properties.

We have obtained Phase I environmental site assessments ("Phase I Surveys") on our existing properties and we intend to obtain Phase I Surveys before the purchase of any future properties. Phase I Surveys are intended to identify potential environmental contamination and regulatory compliance problems. A Phase I Survey generally includes an historical review of the relevant property, a review of certain public records, a preliminary investigation of the site and surrounding properties, and the preparation of a written report. A Phase I Survey generally does not include invasive procedures, such as soil sampling or ground water analysis.

None of our Phase I Surveys have revealed any environmental liability or compliance concern that we believe would have a material adverse effect on our business, assets, results of operations, or liquidity, and we are not aware of any such liability or concern. Nevertheless, it is possible that our Phase I Surveys did not reveal all environmental liabilities or compliance problems or that there are material environmental liabilities or compliance problems of which we will not be aware. Moreover, new or changed laws, ordinances, or regulations may impose material environmental liabilities. In addition, the environmental condition of our properties may also be affected by the condition of neighboring properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to us.

Governmental Regulation

A number of states regulate the licensing of hotels by requiring registration, disclosure statements, and compliance with specific standards of conduct. We believe that each of our facilities has the necessary permits and approvals to operate its respective business and we intend to continue to obtain such permits and approvals for our new facilities. We are also subject to laws governing our relationship with our employees, including minimum wage requirements, overtime, working conditions, and work permit requirements. An increase in the minimum wage rate, employee benefit costs, or other costs associated with employees could adversely affect our business. There are frequently proposals under consideration, at the federal and state level, to increase the minimum wage.

Under the Americans With Disabilities Act ("ADA"), all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. We attempt to satisfy ADA requirements in the designs for our facilities, but we cannot assure you that we will not be subjected to a material ADA claim. If that were to happen, we could be ordered to spend substantial sums to achieve compliance, fines could be imposed against us, and we could be required to pay damage awards to private litigants. The ADA and other regulatory initiatives could adversely affect our business as well as the lodging industry in general.

Insurance

We currently have the types and amounts of insurance coverage that we consider appropriate for a company in our business. While we believe that our insurance coverage is adequate, our business, results of operations, and financial condition could be materially and adversely affected if we were held liable for amounts exceeding the limits of our insurance coverage or for claims outside of the scope of our insurance coverage.

Employees

At December 31, 1998, we employed approximately 4,600 persons, of which approximately 2,500 were part-time employees. We expect that we will significantly increase the number of our employees as our business expands. Our employees are not subject to any collective bargaining agreements and we believe that our relationship with our employees is good.

ITEM 2. PROPERTIES

In addition to our lodging facilities described in "Item 1. Business--Lodging Facilities" above, we also maintain a corporate headquarters and six regional offices. Our principal executive offices are located in Fort Lauderdale, Florida and our regional offices are located in Signal Hill, California; Chicago, Illinois; Clayton, Missouri; Spartanburg, South Carolina; Dallas, Texas; and Vienna, Virginia. We generally rent our office space on a short-term basis, although we have five to eight year leases for our corporate headquarters. Our offices are sufficient to meet our present needs and we do not anticipate any difficulty in securing additional office space, as needed, on terms acceptable to us.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any significant litigation or claims, other than routine matters incidental to the operation of our business. To date, we have had no material claims and we do not expect that the outcome of any pending claims will have a material adverse effect on us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock ("Common Stock") began trading on the New York Stock Exchange, Inc. (the "NYSE") on June 30, 1997, under the symbol "ESA." Before that, it was traded in the National Market tier of The Nasdaq Stock Market ("Nasdaq") under the symbol "STAY." On December 31, 1998, the last reported sale price of the Common Stock on the NYSE was $10.50 per share. At December 31, 1998, there were approximately 450 record holders of the Common Stock. The table below sets forth the high and low sales prices of shares of Common Stock on the NYSE and Nasdaq for the periods indicated.

We have not paid any dividends on our Common Stock. We intend to continue to retain our earnings to finance our growth and for general corporate purposes. We do not anticipate paying any dividends in the foreseeable future. In addition, our credit facility and senior subordinated notes contain, and future financing agreements may contain, maximum debt to capitalization ratio covenants and limitations on payment of any cash dividends or other distributions of assets. These covenants and limitations could restrict our ability to pay dividends.

Market Information

	Common Stock	
	High	Low
Year Ended December 31, 1997:		
1st Quarter	$20.75	$14.75
2nd Quarter	17.50	11.75
3rd Quarter	16.62	13.00
4th Quarter	16.00	10.62
Year Ended December 31, 1998:		

1st Quarter...............................	15.00	10.94
2nd Quarter...............................	14.75	10.75
3rd Quarter...............................	11.62	6.12
4th Quarter...............................	11.06	6.37

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data has been derived from our audited consolidated financial statements for the years ended December 31, 1994, 1995, 1996, 1997, and 1998. You should read this information together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

<TABLE>
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	Year Ended December 31,				
	1994	1995	1996	1997	1998
	(in thousands, except per share and operating data)				
<S>	<C>	<C>	<C>	<C>	<C>
Income Statement Data:					
Revenue......................................	$ 12,152	$ 16,768	$ 38,809	$ 130,800	$ 283,087
Property operating expenses..................	5,256	6,706	16,560	60,391	122,469
Corporate operating and property management expenses.........................	881	4,669	16,867	29,951	39,073
Merger, financing and other charges...........	--	--	--	19,895	12,000
Depreciation and amortization.................	1,472	2,059	6,139	21,331	42,293
Income (loss) from operations.................	4,543	3,334	(757)	(768)	67,252
Interest income (expense), net (1)...........	(2,532)	(507)	13,744	9,242	(20,521)
Provision for income taxes (2)...............	--	1,217	5,231	5,838	18,693
Net income from continuing operations.........	$ 1,653	$ 1,468	$ 7,756	$ 2,636	$ 28,038
Net income from continuing operations per share (3):					
Basic....................................		$ 0.05	$ 0.11	$ 0.03	$ 0.29
Diluted..................................		$ 0.05	$ 0.10	$ 0.03	$ 0.29
Weighted average shares outstanding (3):					
Basic....................................		30,381	71,933	94,233	95,896
Diluted..................................		31,434	73,935	95,744	96,800
Operating Data:					
Average occupancy rates (4)..................	85%	83%	73%	73%	73%
Average weekly rate..........................	$ 222	$ 250	$ 261	$ 263	$ 286
Operating facilities (at period end)..........	18	24	75	185	305
Weighted average rooms available (5)..........	1,201	1,479	3,783	12,558	25,334
Rooms (at period end).........................	1,263	1,794	7,611	19,299	32,189
Facilities under construction (at period end).	2	16	61	84	51
Rooms under construction (at period end)......	144	1,780	6,864	8,953	5,320
Other Financial Data:					
Cash flows provided by (used in):					
Operating activities.......................	$ 3,160	$ 4,186	$ 20,828	$ 50,263	$ 118,145
Investing activities.......................	(5,891)	(35,330)	(279,259)	(609,064)	(630,027)
Financing activities.......................	2,327	156,601	356,841	337,689	509,292
EBITDA (6)....................................	6,015	5,393	5,382	20,563	109,545
Adjusted EBITDA (7)...........................	6,015	5,393	5,382	40,458	121,545
Capital expenditures..........................	5,794	33,722	277,531	607,649	630,276
Balance Sheet Data (at period end):					
Cash and cash equivalents.....................	$ 457	$ 125,915	$ 224,325	$ 3,213	$ 623
Total assets..................................	36,222	213,445	668,435	1,070,891	1,694,582
Long-term debt................................	32,306	4,000	--	135,000	653,000
Stockholders' equity (deficit)................	(1,247)	199,322	628,714	834,659	866,751

</TABLE>

(1) Excludes interest of $153,000, $256,000, $329,000, $1,731,000, and $17,617,000 for 1994, 1995, 1996, 1997, and 1998, respectively, capitalized

during the construction of our facilities under Statement of Financial Accounting Standards ("SFAS") Statement No. 34 "Capitalization of Interest Cost."

(2) On April 11, 1997, we completed the Merger with SPH. Historical financial information prior to SPH's initial public offering of common stock does not include a provision for income taxes because SPH's predecessor entities were S corporations or partnerships not subject to income taxes.

(3) Net income per share for the year ended December 31, 1995 is presented on a pro forma basis as if all of our income for the period was subject to income taxes.

(4) Average occupancy rates are determined by dividing the rooms occupied on a daily basis by the total number of rooms. Due to our rapid expansion, our overall average occupancy rate has been negatively impacted by the lower occupancy typically experienced during the pre-stabilization period for newly opened facilities. We expect the negative impact on overall average occupancy to decline as the ratio of newly opened properties to total properties in operation declines.

(5) Weighted average rooms available is calculated by dividing total room nights available during the year by 365.

(6) EBITDA represents earnings before interest, income taxes, depreciation, and amortization. EBITDA is provided because it is a measure commonly used in the lodging industry. EBITDA is not a measurement of financial performance under generally accepted accounting principles and should not be considered an alternative to net income as a measure of performance or to cash flow as a measure of liquidity. EBITDA is not necessarily comparable with similarly titled measures for other companies.

(7) Adjusted EBITDA for 1998 means EBITDA before $12.0 million of pre-tax charges relating to a reduction in our development plans for 1999 and 2000 as a result of unfavorable capital market conditions. Adjusted EBITDA for 1997 means EBITDA before $19.9 million of pre-tax charges consisting of (i) $9.7 million of merger expenses and costs associated with the integration of SPH's operations following the Merger, (ii) the write-off of $9.7 million of debt issuance costs associated with terminating two mortgage loan facilities upon execution by us of a revolving credit facility, and (iii) a $500,000 charge in connection with the listing of our Common Stock on the NYSE. We believe these charges are non-recurring in nature and will not affect our future results of operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Extended Stay America, Inc. was organized on January 9, 1995 as a Delaware corporation to develop, own, and operate extended stay lodging facilities. Studio Plus Hotels, Inc. was formed in December 1994 and acquired all of the assets of the SPH predecessor entities, which owned and operated StudioPLUS(TM) extended stay facilities since 1986. The acquisition of the interests of the SPH predecessor entities was accounted for as if it were a pooling of interests.

On April 11, 1997, we completed a merger with SPH. The 12,557,786 shares of SPH common stock that were outstanding on the closing date were converted into 15,410,915 shares of our Common Stock and options to purchase 1,072,565 shares of SPH common stock were converted into options to purchase 1,316,252 shares of our Common Stock. As a result of the Merger, SPH became one of our wholly-owned subsidiaries. Our accompanying consolidated financial statements give effect to the Merger, which has been accounted for as a pooling of interests.

We own and operate three brands in the extended stay lodging market--StudioPLUS(TM) hotels, EXTENDED STAYAMERICA Efficiency Studios, and Crossland Economy StudiosSM. Each brand is designed to appeal to different price points below $500 per week. All three brands offer the same core components: a living/sleeping area; a fully-equipped kitchen or kitchenette; and a bathroom. EXTENDED STAY rooms are designed to compete in the economy category. Crossland rooms are typically smaller than EXTENDED STAY rooms and are targeted for the budget category, and StudioPLUS facilities serve the mid-price category and generally feature larger guest rooms, an exercise room, and a swimming pool.

The table below provides a summary of our selected development and operational results for 1996, 1997, and 1998.

	Year Ended December 31,		
	1996	1997	1998
Total Facilities Open (at period end)............	75	185	305
Total Facilities Developed.......................	41	110	120
Total Facilities Acquired........................	10	--	--
Average Occupancy Rate...........................	73%	73%	73%
Average Weekly Room Rate.........................	$ 261	$ 263	$ 286

Average occupancy rates are determined by dividing the rooms occupied on a daily basis by the total number of rooms. Due to our rapid expansion, our overall average occupancy rate has been negatively impacted by the lower occupancy typically experienced during the pre-stabilization period for newly-opened facilities. We expect the negative impact on overall average occupancy to decline as the ratio of newly-opened properties to total properties in operation declines. Average weekly room rates are determined by dividing room revenue by the number of rooms occupied on a daily basis for the applicable period and multiplying by seven. The average weekly room rates are generally greater than standard room rates because of (i) stays of less than one week, which are charged at a higher nightly rate, (ii) higher weekly rates for rooms that are larger than the standard rooms, and (iii) additional charges for more than one person per room. We expect that our future occupancy and room rates will be impacted by a number of factors, including the number and geographic location of new facilities as well as the season in which we open those facilities. We also cannot assure you that we can maintain our occupancy and room rates.

The following is a summary of the our development status as of December 31, 1998, by brand. We expect to complete the construction of the facilities currently under construction generally within the next twelve months, however, we cannot assure you that we will complete construction within the time periods we have historically experienced. Our ability to complete construction may be materially impacted by various factors including final permitting and obtaining certificates of occupancy, as well as weather-induced construction delays.

<TABLE>
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	Crossland	EXTENDED STAY	StudioPLUS	Total
<S>	<C>	<C>	<C>	<C>
Operating Facilities...........................	33	181	91	305
Facilities Under Construction..................	6	31	14	51

</TABLE>

Results of Operations

1998 Compared to 1997

Property Operations

The following is a summary of the number of properties in operation at the end of each year along with the related average occupancy rates and average weekly room rates during each year:
<TABLE>
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	Year Ended December 31, 1998		Year Ended December 31, 1997	
	Average	Average Weekly	Average	Average Weekly

	Facilities Open	Occupancy Rate	Room Rate	Facilities Open	Occupancy Rate	Room Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Crossland................................	33	61%	$ 198	6	65%	$183
EXTENDED STAY............................	181	75	281	114	72	251
StudioPLUS...............................	91	70	322	65	78	302
Total...............................	305	73%	$ 286	185	73%	$263

</TABLE>

The average occupancy rate in 1998 for the 75 properties that we owned and operated as of January 1, 1997 was 80%. Because newly-opened properties typically experience lower occupancies during their pre-stabilization period, average occupancy rates are impacted by the ratio of newly-opened properties to total properties. A total of 120 properties commenced operations in 1998 compared to 110 properties that were opened in 1997. For the EXTENDED STAY brand, occupancy rates increased for 1998 as compared to 1997 primarily due to a decrease in the ratio of newly-opened properties to total properties for that brand. Occupancy rates decreased for the Crossland brand primarily due to an increase in the number of newly-opened properties for that brand. Occupancy rates for the StudioPLUS brand were also diluted by an increase in the number of newly-opened properties for that brand. In addition, the 35 StudioPLUS properties opened before 1997 experienced average declines in occupancy of approximately five percentage points. We believe that this decline was due to a number of factors, including primarily a change in the pricing policies for the StudioPLUS brand during 1998 to eliminate certain rate discounts, changes in personnel as a result of management restructuring following the Merger with SPH, and additional competition from new properties that we and our competitors have opened in the markets served by these properties. We do not expect that the majority of our properties will experience similar conditions.

The increase in overall average weekly room rates for 1998 compared to 1997 reflects the geographic dispersion of properties opened during 1998 and the higher standard weekly room rates in certain of those markets. The increase also is due in part to increases in rates charged in previously opened properties. The average weekly room rate for the 75 properties that we owned and operated throughout both periods increased by 2% in 1998. These increases were partially offset by an increase in the percentage of total facilities (as of the end of the year) represented by lower priced EXTENDED STAY and Crossland facilities. This percentage increased to 70% for 1998 from 65% for 1997. We expect our overall average weekly room rate will continue to be impacted as EXTENDED STAY and Crossland facilities increase as a percentage of our total facilities.

We recognized total revenue for 1998 and 1997 of $283.1 million and $130.8 million, respectively. This is an increase of $152.3 million or 116%. Approximately $150.2 million of the increased revenue was attributable to properties that we opened during 1998 and 1997, and approximately $2.1 million was attributable to an increase in revenue for the 75 properties that we owned and operated throughout both periods.

Property operating expenses, consisting of all expenses directly allocable to the operation of the facilities but excluding any allocation of corporate operating and property management expenses, depreciation, or interest were $122.5 million (43% of total revenue) for 1998 compared to $60.4 million (46% of total revenue) for 1997. The

decrease in property operating expenses as a percentage of total revenue for 1998 as compared to 1997 was primarily a result of a decrease in the ratio of newly opened properties to total properties. Operating expenses as a percentage of revenue generally decline as a newly-opened property increases its occupancy and revenue because the majority of these expenses do not vary based on occupancy. As a result, we realized property operating margins of 57% for 1998 and 54% for 1997.

The provisions for depreciation and amortization for our lodging facilities of $40.8 million for 1998 and $19.9 million for 1997 were computed using the straight-line method over the estimated useful lives of the assets. These provisions reflect a pro rata allocation of the annual depreciation and amortization charge for the periods for which the facilities were in operation. The increase in depreciation and amortization for 1998 as compared to 1997 is because we opened 120 additional properties in 1998 and we operated for a full year the 110 properties opened in 1997.

Corporate Operations

Corporate operating and property management expenses include all expenses not directly related to the development or operation of the lodging facilities. These expenses consist primarily of personnel, travel, and certain marketing costs, as well as development costs that are not directly related to a site that we will develop. We incurred corporate operating and property management expenses of $39.1 million (14% of total revenue) in 1998 and $30.0 million (23% of total revenue) in 1997. The increase in the amount of these expenses for 1998 as compared to 1997 reflects the impact of additional personnel and related expenses in connection with the increased number of facilities we operated and sites we developed. We expect these expenses will continue to increase in total amount but decline as a percentage of revenue as we develop and operate additional facilities in the future.

Depreciation and amortization in the amount of $1.5 million for 1998 and $1.4 million for 1997 were computed using the straight-line method over the estimated useful lives of the assets for assets not directly related to the operation of our facilities. These assets were primarily office furniture and equipment.

We realized $2.9 million of interest income during 1998 and $9.2 million during 1997. This interest income was primarily attributable to the temporary investment of funds drawn under our credit facilities and funds received from an offering of Common Stock in 1997. The decrease in interest income for 1998 as compared to 1997 was due to the decrease in our average cash and cash equivalent balances as a result of our continued investments in property and equipment during 1998. We incurred interest charges of $41.0 million during 1998 and $1.7 million during 1997. Of these amounts, $17.6 million during 1998 and $1.7 million during 1997 was capitalized and included in the cost of buildings and improvements.

We recognized income tax expense of $18.7 million (40% of income before taxes) for 1998 and $5.8 million (69% of income before taxes) for 1997. Our income tax expense differs from the federal income tax rate of 35% primarily due to state and local income taxes and, for 1997, due to permanent tax differences relating to merger expenses and tax exempt interest income. We expect that our annualized effective income tax rate for 1999 will be approximately 40%.

Merger, Financing, and Other Charges

Our normal operating procedures call for us to invest varying amounts in our sites under option in terms of (1) earnest money which would be applied to the purchase of a site, but that in certain circumstances may not be refundable, (2) legal, environmental, engineering, and architectural outlays needed to determine the feasibility of acquiring a site and constructing a hotel on that site, and (3) salaries, wages, and travel costs of our personnel related to the sites. We capitalize these expenses in accordance with generally accepted accounting principles. In the quarter ended September 30, 1998, we announced a reduction in our development plans for 1999 and 2000 as a result of unfavorable capital market conditions. This meant that certain sites we had under option would not be developed. As a result, we established a valuation allowance of $12.0 million for the write-off of expenses related to these sites. This resulted in a corresponding expense during the quarter ended September 30, 1998. At December 31, 1998, a total of $10.5 million of those costs, including $265,000 in termination payments to employees, had been charged against the allowance and $1.5 million was included in other current liabilities. We believe that these charges are non-recurring in nature and will not affect the future results of operations.

1997 Compared to 1996

Property Operations

The following is a summary of the number of properties in operation at the end of each year along with the related average occupancy rates and average weekly room rates during each year:
<TABLE>
<CAPTION>

<S>	Year Ended December 31, 1997 Facilities Open <C>	Average Occupancy Rate <C>	Average Weekly Room Rate <C>	Year Ended December 31, 1996 Facilities Open <C>	Average Occupancy Rate <C>	Average Weekly Room Rate <C>
Crossland	6	65%	$ 183	--	--	--
EXTENDED STAY	114	72	251	40	65%	$ 233
StudioPLUS	65	78	302	35	81	284
Total	185	73%	$ 263	75	73%	$ 261

</TABLE>

The average occupancy rate in 1997 for the 24 properties that we owned and operated as of January 1, 1996 was 83%. A total of 110 properties commenced operations in 1997 compared to 41 properties that were opened in 1996. For the EXTENDED STAY brand, occupancy rates increased for 1997 as compared to 1996 primarily due to a decrease in the ratio of newly-opened properties to total properties for that brand. Occupancy rates decreased for the StudioPLUS brand primarily due to an increase in the ratio of newly-opened properties to total properties for that brand.

The increase in overall average weekly room rates for 1997 compared to 1996 reflects the geographic dispersion of properties opened during 1997 and the higher standard weekly room rates in certain of those markets. The increase also is due in part to increases in rates charged in previously opened properties. The average weekly room rate for the 24 properties that we owned and operated throughout both periods increased by 2% in 1997. These increases were partially offset by an increase in the percentage of total facilities (as of the end of the year) represented by lower priced EXTENDED STAY and Crossland facilities. This percentage increased to 65% for 1997 from 53% for 1996.

We recognized total revenue for 1997 and 1996 of $130.8 million and $38.8 million, respectively. This is an increase of $92.0 million or 237%. Approximately $91.2 million of the increased revenue was attributable to properties that we opened or acquired during 1997 and 1996, and approximately $757,000 was attributable to an increase in revenue for the 24 properties that we owned and operated throughout both periods.

Property operating expenses were $60.4 million (46% of total revenue) for 1997, compared to $16.6 million (43% of total revenue) for 1996. The increase in property operating expenses as a percentage of total revenue for 1997 as compared to 1996 was primarily a result of the lower occupancies and revenue during the pre-stabilization period for the 110 properties that commenced operations during 1997. As a result, we realized property operating margins of 54% for 1997 and 57% for 1996.

The provisions for depreciation and amortization for our lodging facilities were $19.9 million for 1997 and $5.6 million for 1996. The increase in depreciation and amortization for 1997 as compared to 1996 is because we opened 110 additional properties in 1997 and we operated for a full year the 51 properties opened or acquired in 1996.

Corporate Operations

We incurred corporate operating and property management expenses of $30.0 million (23% of total revenue) in 1997 and $16.9 million (43% of total revenue) in 1996. The increase in the amount of these expenses for 1997 as compared to 1996 reflects the impact of additional personnel and related expenses in connection with the increased number of facilities we operated and sites we developed.

Depreciation and amortization for assets not directly related to the operation of our facilities was $1.4 million for 1997 and $495,000 for 1996.

We realized $9.2 million of interest income during 1997 and $13.7 million during 1996. This interest income was primarily attributable to the investment of funds received from offerings of common stock. The decrease in interest income for 1997 as compared to 1996 was due to the decrease in our average cash and cash equivalent balances as a result of our continued investments in property and equipment during 1997. We incurred interest charges of $1.7 million during 1997 and $332,000 during 1996, substantially all of which was capitalized and included in the cost of buildings and improvements.

We recognized income tax expense of $5.8 million (69% of income before taxes) for 1997 and $5.2 million (40% of income before taxes) for 1996. Our income tax expense differs from the federal income tax rate of 35% primarily due to state and local income taxes and, for 1997, due to permanent tax differences relating to merger expenses and tax exempt interest income.

Merger, Financing, and Other Charges

During 1997, we recorded merger, financing, and other charges totaling $19.9 million. These pre-tax charges consisted of (i) $9.7 million of merger expenses and costs associated with the integration of SPH's operations following the Merger, (ii) the write-off of $9.7 million of deferred costs associated with two mortgage loan facilities, which were terminated upon execution of a revolving credit facility, and (iii) a charge of $500,000 in connection with moving the listing of our Common Stock to the NYSE from the National Market tier of the Nasdaq Stock Market. We believe that these charges are non-recurring in nature and will not affect the future results of operations.

Liquidity and Capital Resources

We had net cash and cash equivalents of $0.6 million as of December 31, 1998 and $3.2 million as of December 31, 1997. At December 31, 1998, we had invested approximately $5.9 million in short-term demand notes having credit ratings of A1/Pl or equivalent using domestic commercial banks and other financial institutions. We did not have these investments as of December 31, 1997. We also deposited excess funds during these periods in an overnight sweep account with a commercial bank which in turn invested those funds in short-term, interest-bearing reverse repurchase agreements. Due to the short-term nature of these investments, we did not take possession of the securities, which were instead held by the financial institutions. The market value of the securities held pursuant to these arrangements approximates the carrying amount. Deposits in excess of $100,000 are not insured by the Federal Deposit Insurance Corporation. During 1996, SPH temporarily invested proceeds from an offering of its common stock in investments with maturities greater than 90 days. These investments were in a mutual fund (primarily in municipal bonds) and in United States Government obligations and have been classified as "investments available-for-sale" in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". In 1996, purchases of these "investments available-for-sale" aggregated $38.8 million and proceeds from the sale or maturity of these investments aggregated $39.3 million.

Our operating activities generated cash of $118.1 million in 1998, $50.3 million in 1997, and $20.8 million in 1996.

We used $630.3 million to acquire land and develop and furnish 171 sites opened or under construction in 1998, $607.6 million for 194 sites in 1997, and $273.3 million for 102 sites in 1996. We also acquired ten existing extended stay facilities in 1996. Those facilities were paid for by the issuance of Common Stock valued at $55.2 million and the payment of $4.3 million in cash.

Our cost to develop a property varies significantly by brand and by geographic location due to differences in land and labor costs. Similarly, the average weekly rate charged and the resultant cash flow from these properties will vary significantly but generally are expected to be in proportion to the development costs. For the 272 properties we opened from January 1, 1996 through December 31, 1998, the average development cost was approximately $5.0 million with an average of 107 rooms. In 1999, we expect to open a number of properties in the Northeast and West where average development costs are higher. Accordingly, we expect our average development cost for 1999 to increase to approximately $6.3 million per property.

We received net proceeds from the exercise of options to purchase common stock and from offerings of common stock totaling $4.5 million in 1998, $202.1 million in 1997, and $365.6 million in 1996. In 1998, we also made open market repurchases of 169,900 shares of Common Stock for approximately $1.3 million.

In May 1995, SPH entered into a $30 million revolving credit agreement to fund future development and construction of additional hotels and for working capital. In February 1996, SPH increased this line of credit to $50 million, maturing in 1998. During 1996, SPH received proceeds of $27.0 million and made payments of $31.6 million on its line of credit, which was terminated upon consummation of the Merger with us in 1997.

In September 1997, we executed an agreement with various banks establishing a credit facility that provided for up to $500 million of revolving loans on a senior collateralized basis that had a maturity of December 31, 2002 to be used for general corporate purposes, including the construction and acquisition of extended stay properties. Upon entering into the revolving credit facility, we terminated two mortgage loan facilities, which had provided for an aggregate of $400 million in mortgage loans. We recorded a pre-tax charge of $9.7 million at that time, which represented the write-off of debt issuance costs associated with the mortgage loan facilities. In March 1998 we amended the revolving credit facility and, as amended, it became the Credit Facility. The Credit Facility was again amended in September 1998 and December 1998.

The Credit Facility provides for a $350 million revolving loan facility (the "Revolving Facility"), a $150 million term loan facility (the "Tranche A Facility"), a $200 million term loan facility (the "Tranche B Facility"), and a $100 million term loan facility (the "Tranche C Facility"). As of December 31, 1998, we had outstanding loans of $105 million under the Revolving Facility, $150 million under the Tranche A Facility and $200 million under the Tranche B Facility. At least $275 million of loans must be outstanding under the Revolving Facility on the date any term loans under the Tranche C Facility are funded.

Loans under the Credit Facility bear interest, at the our option, at either a prime-based rate ("Base Rate") or a LIBOR-based rate ("Eurodollar Rate"), plus an applicable margin. The applicable margin is an annual rate that fluctuates based on our ratio of Consolidated Debt to Consolidated EBITDA (as defined in the Credit Facility). The applicable margin for the various loan facilities in the Credit Facility are shown in the table below:

	Base Rate	Eurodollar Rate
Revolving Facility................	0-0.875%	1.00-1.875%
Tranche A Facility................	0-0.875%	1.00-1.875%
Tranche B Facility................	1.75%	2.75%
Tranche C Facility................	2.50%	3.50%

The loans under the Revolving Facility and the Tranche A Facility mature on December 31, 2002. The loans under the Tranche B Facility and the Tranche C Facility mature on December 31, 2003 and 2004, respectively, but are subject to principal payments of 1% of the initial loan amounts in each of the years 1999 through 2002 for the Tranche B Facility and 2000 through 2003 for the Tranche C Facility. The remaining balances must be repaid in four equal quarterly installments in the years of maturity.

Our obligations under the Credit Facility are guaranteed by each of our subsidiaries. They are also collateralized by a first priority lien on all stock of our subsidiaries and all other current and future assets owned by us and our subsidiaries (other than mortgages on our real property).

The Credit Facility contains a number of negative covenants, including, among others, covenants that limit our ability to incur debt, make investments, pay dividends, prepay other indebtedness, engage in transactions with affiliates, enter into sale-leaseback transactions, create liens, make capital expenditures, acquire or dispose of assets, or engage in mergers or acquisitions. In addition, the Credit Facility contains affirmative covenants, including, among others, covenants that require us to maintain our corporate existence, comply with laws, maintain our properties and insurance, and deliver financial and other information to the lenders. The Credit Facility also requires us to comply with certain financial tests and to maintain certain financial ratios on a consolidated basis.

On March 10, 1998, we issued $200 million aggregate principal amount of Senior Subordinated Notes (the "Notes"). The Notes bear interest at an annual rate of 9.15%, payable semiannually on March 15 and September 15 of each year and mature on March 15, 2008. We may redeem the Notes beginning on March 15,

2003. The initial redemption price is 104.575% of their principal amount, plus accrued interest. The redemption price declines each year after 2003 and is 100% of their principal amount, plus accrued interest, after 2006. In addition, before March 15, 2001, we may redeem up to $70 million of the Notes, using the proceeds from certain sales of our stock, at 109.15% of their principal amount, plus accrued interest.

The Notes are uncollateralized and are subordinated to all of our senior indebtedness including the Credit Facility, and contain certain covenants for the benefit of the holders of the Notes. These covenants, among other things, limit our ability to incur additional indebtedness, pay dividends and make investments and other restricted payments, enter into transactions with 5% stockholders or affiliates, create liens, and sell assets.

We had commitments totaling approximately $120.0 million at December 31, 1998 to complete construction of extended stay properties. We believe that the remaining availability under the Credit Facility, together with cash on hand and cash flows from operations, will provide sufficient funds to develop the properties we currently plan to open in 1999 and to fund our operating expenses through 1999. We expect we will continue to rapidly expand our operations. Beginning in 1999, we plan to open properties with total costs of approximately $350 million per year. We expect to finance this development with internally generated cash flows and increases in our debt facilities. The timing and amount of financing we will need will depend on a number of factors, including the number of properties we construct or acquire, the timing of that development, and the cash flow generated by our properties. Also, if capital markets provide favorable opportunities, our plans or assumptions change or prove to be inaccurate, our existing sources of funds prove to be insufficient to fund our growth and operations, or if we consummate acquisitions, we may seek additional capital sooner than currently anticipated. Sources of financing may include public or private debt or equity financing. We cannot assure you that we will be able to obtain additional financing on acceptable terms, if at all. Our failure to raise additional capital could result in the delay or abandonment of some or all of our development and expansion plans, and could have a material adverse effect on the Company.

Impact of the Year 2000 Issue and Accounting Releases

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Based on our assessment, we do not anticipate that any significant modification or replacement of our hardware or software will be necessary for our computer systems to properly use dates beyond December 31, 1999 or that we will incur significant operating expenses to make any such computer system improvements. We are undertaking an assessment as to whether any of our significant suppliers, lenders, or service providers will need to make any such software modifications or replacements. While we do not expect the failure of any third parties to address the Year 2000 Issue to uniquely impact our business, we could be adversely affected should the availability of electricity, gas, water, and telephone services be interrupted. In addition, we could be adversely affected if other businesses are impacted by the Year 2000 Issue to the extent that business related travel is reduced significantly or in the event that our employees are unable to fulfill their responsibilities. We do not expect these pervasive failures to result from the Year 2000 Issue, however, we cannot give you any assurance that these problems will not arise.

In April 1998, the Accounting Standards Executive Committee released Statement of Position 98-5, "Reporting on the Costs of Start-up Activities" ("SOP 98-5"). SOP 98-5 requires that start-up costs, including pre-opening and organizational costs be expensed as incurred and is effective for financial statements issued for periods beginning after December 15, 1998. At December 31, 1998, we had unamortized pre-opening and organization costs of approximately $1.3 million. Under SOP 98-5, we would have reported an increase in expenses of approximately $139,000 for 1998.

Seasonality and Inflation

Based upon the operating history of our facilities, we believe that extended stay lodging facilities are not as seasonal in nature as the overall lodging industry. We do expect, however, that our occupancy rates and revenues will be lower than average during the first and fourth quarters of each calendar year. Because many of our expenses do not fluctuate with changes in occupancy rates, declines in occupancy rates may cause fluctuations or decreases in our quarterly earnings.

The rate of inflation as measured by changes in the average consumer price index has not had a material effect on our revenue or operating results during any of the periods presented. We cannot assure you, however, that inflation will not affect our future operating or construction costs.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements. All statements regarding our expected financial position, business, and financing plans are forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. However, these forward-looking statements are subject to risks, uncertainties, assumptions, and other factors ("Cautionary Statements") which may cause our actual results, performance, or achievements to be materially different. These factors include, among other things:

- our limited operating history and uncertainty as to our future profitability;
- our ability to meet construction and development schedules and budgets;
- our ability to develop and implement the operational and financial systems needed to manage rapidly growing operations;
- uncertainty as to the consumer demand for extended stay lodging;
- increasing competition in the extended stay lodging market;
- our ability to integrate and successfully operate acquired properties and the risks associated with such properties;
- our ability to obtain financing on acceptable terms to finance our growth; and
- our ability to operate within the limitations imposed by financing arrangements.

Other matters set forth in this Annual Report may also cause our actual future results to differ materially from these forward-looking statements. There can be no assurance that our expectations will prove to be correct. In addition, all subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements. You are cautioned not to place undue reliance on these forward-looking statements. All of these forward-looking statements are based on our expectations as of the date of this Annual Report. We do not intend to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Extended Stay America, Inc.
Ft. Lauderdale, Florida

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Extended Stay America, Inc. and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP

Spartanburg, South Carolina
January 29, 1999

EXTENDED STAY AMERICA, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

<TABLE>
<CAPTION>

ASSETS	December 31, 1998	December 31, 1997
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 623	$ 3,213

Accounts receivable	5,946	3,651
Prepaid expenses	1,743	3,869
Deferred income taxes	27,735	6,895
Other current assets	781	866
Total current assets	36,828	18,494
Property and equipment, net	1,637,334	1,042,741
Deferred loan costs	19,260	8,167
Other assets	1,160	1,489
	$ 1,694,582	$ 1,070,891
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 62,834	$ 51,310
Income taxes payable	7,079	
Accrued retainage	25,442	19,951
Accrued property taxes	6,856	3,417
Accrued salaries and related expenses	1,816	2,707
Accrued interest	7,010	356
Other accrued expenses	15,304	5,098
Current portion of long-term debt	2,000	
Total current liabilities	128,341	82,839
Deferred income taxes	46,490	18,393
Long-term debt	653,000	135,000
Commitments		
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, $.01 par value, 500,000,000 shares authorized, 95,968,379 and 95,604,208 shares issued and outstanding, respectively	960	956
Additional paid-in capital	827,110	823,060
Retained earnings	38,681	10,643
Total stockholders' equity	866,751	834,659
	$ 1,694,582	$ 1,070,891

</TABLE>

See notes to consolidated financial statements.

EXTENDED STAY AMERICA, INC.

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

<TABLE>
<CAPTION>

	Year Ended December 31, 1998	1997	1996
<S>	<C>	<C>	<C>
Revenue:			
Room revenue	$ 273,864	$ 126,095	$ 37,480
Other revenue	9,223	4,705	1,329
Total revenue	283,087	130,800	38,809
Costs and expenses:			
Property operating expenses	122,469	60,391	16,560

Corporate operating and property management expenses	39,073	29,951	16,867
Merger, financing and other charges	12,000	19,895	
Depreciation and amortization	42,293	21,331	6,139
Total costs and expenses	215,835	131,568	39,566
Income (loss) from operations	67,252	(768)	(757)
Interest income (expense), net	(20,521)	9,242	13,744
Income before income taxes	46,731	8,474	12,987
Provision for income taxes	18,693	5,838	5,231
Net income	$ 28,038	$ 2,636	$ 7,756
Net income per share:			
Basic	$ 0.29	$ 0.03	$ 0.11
Diluted	$ 0.29	$ 0.03	$ 0.10
Weighted average shares:			
Basic	95,896	94,233	71,933
Effect of dilutive options	904	1,511	2,002
Diluted	96,800	95,744	73,935

</TABLE>

See notes to consolidated financial statements.

EXTENDED STAY AMERICA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

<TABLE>
<CAPTION>

<S>	Common Stock <C>	Additional Paid-in Capital <C>	Retained Earnings <C>	Total Stockholders' Equity <C>
Balance as of January 1, 1996	284	$ 198,787	$ 251	$ 199,322
Issuances of common stock for acquisitions of extended stay facilities	45	55,198		55,243
Issuances of common stock, net of issuance costs	255	365,972		366,227
Stock options exercised, including tax benefit of $108		166		166
Retroactive effect of three-for-two stock split on July 9, 1996	32	(32)		
Retroactive effect of two-for-one stock split on July 19, 1996	221	(221)		
Net income			7,756	7,756
Balance as of December 31, 1996	837	619,870	8,007	628,714
Issuance of common stock, net of issuance costs	115	197,978		198,093
Stock options exercised, including tax benefit of $1,174	4	5,212		5,216
Net income			2,636	2,636
Balance as of December 31, 1997	956	823,060	10,643	834,659
Repurchases of common stock	(1)	(1,251)		(1,252)
Stock options exercised, including tax benefit of $794	5	5,301		5,306
Net income			28,038	28,038
Balance as of December 31, 1998	960	$ 827,110	$ 38,681	$ 866,751

======== ========== ============ =========

</TABLE>

See notes to consolidated financial statements.

EXTENDED STAY AMERICA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 28,038	$ 2,636	$ 7,756
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	42,293	21,331	6,139
Amortization and write off of deferred loan costs	2,566	9,667	
Write offs and unsuccessful development costs	14,917	2,731	1,475
Deferred income taxes	8,051	5,832	2,574
Other, net		485	(469)
Changes in operating assets and liabilities:			
Accounts receivable	(2,795)	(1,986)	(1,002)
Prepaid expenses	2,775	(3,073)	(480)
Other current assets	(1,403)	(954)	(28)
Accounts payable	(982)	7,542	643
Income taxes payable	7,079		
Accrued property taxes	3,439	2,634	
Accrued salaries and related expenses	(891)	324	885
Accrued interest	6,653	356	
Other accrued expenses	8,405	2,738	3,335
Net cash provided by operating activities	118,145	50,263	20,828
Cash flows from investing activities:			
Additions to property and equipment	(630,276)	(607,649)	(273,260)
Acquisitions of extended stay properties			(4,271)
Purchase of investments available-for-sale			(38,829)
Proceeds from sale/maturity of investments available-for-sale			39,298
Other assets	249	(1,415)	(2,197)
Net cash used in investing activities	(630,027)	(609,064)	(279,259)
Cash flows from financing activities:			
Proceeds from exercise of Company stock options and issuances of common stock	4,512	202,135	365,636
Repurchase of Company common stock	(1,252)		
Proceeds from long-term debt	548,500	143,869	27,000
Principal payments on long-term debt			(31,630)
Repayments of revolving credit facility	(28,500)		
Additions to deferred loan and other costs	(13,968)	(8,315)	(4,165)
Net cash provided by financing activities	509,292	337,689	356,841
Increase (decrease) in cash and cash equivalents	(2,590)	(221,112)	98,410
Cash and cash equivalents at beginning of period	3,213	224,325	125,915
Cash and cash equivalents at end of period	$ 623	$ 3,213	$224,325
Noncash investing and financing transactions:			
Issuances of common stock for acquisitions of extended stay properties	$	$	$ 55,243
Capitalized or deferred items included in accounts payable and accrued liabilities	$ 67,566	$ 49,308	$ 17,671
Conversion of amounts due under revolving credit facility to term loan	$ 100,000		

Capitalization of amortized deferred loan costs	$ 511		
Supplemental cash flow disclosures:			
Cash paid for:			
Income taxes, net of refunds of $415 in 1998	$ 2,681	$ 1,340	$ 2,267
Interest expense, net of amounts capitalized	$ 23,396	$	$ 3

</TABLE>

See notes to consolidated financial statements.

EXTENDED STAY AMERICA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(000's omitted in all tables except per share data)

Note 1--Organization, Operations and Basis of Presentation

Extended Stay America, Inc. ("ESA") was organized on January 9, 1995, as a Delaware corporation to develop, own, and operate extended stay lodging facilities.

On April 11, 1997, ESA, ESA Merger Sub, Inc. ("Merger Sub"), a wholly-owned subsidiary of ESA, and Studio Plus Hotels, Inc. ("SPH") consummated a merger (the "Merger") pursuant to which SPH was merged with and into Merger Sub and the 12,557,786 shares of SPH common stock issued and outstanding on such date were converted into the right to receive 15,410,915 shares of common stock, par value $.01 per share, of ESA ("Common Stock") and options to purchase 1,072,565 shares of SPH common stock were converted into options to purchase 1,316,252 shares of Common Stock. The Merger was accounted for using the pooling of interests method of accounting. The accompanying consolidated financial statements of ESA and SPH (together the "Company") give effect to the Merger as if it had been consummated as of the beginning of the periods presented.

All per share data and numbers of shares of Common Stock for all periods presented included in the consolidated financial statements and notes thereto have been adjusted to reflect stock splits as more fully described in Note 8--Stockholders' Equity.

Note 2--Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and on deposit and highly liquid instruments with maturities of three months or less when purchased. The carrying amount of cash and cash equivalents is the estimated fair value at the respective balance sheet date. At December 31, 1997, approximately $8.9 million of outstanding checks were included in accounts payable.

At December 31, 1998, the Company had invested approximately $5.9 million in short-term demand notes. The Company did not have such investments as of December 31, 1997. In addition, during these periods the Company invested excess funds in an overnight sweep account with a commercial bank which invested in short-term, interest-bearing reverse repurchase agreements. Due to the short-term nature of these investments, the Company did not take possession of the securities, which were instead held by the financial institution. The market value of the securities held pursuant to the agreements approximates the carrying amount. Deposits in excess of $100,000 are not insured by the Federal Deposit Insurance Corporation.

Property and Equipment

Property and equipment is stated at cost. The Company capitalizes salaries and related costs for site selection, design and construction supervision. The Company also capitalizes construction period interest.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to operations as incurred; major renewals and improvements are capitalized. The gain or loss on the disposition of property and equipment is recorded in the year of disposition.

The estimated useful lives of the assets are as follows:

Building and improvements.................	40 years
Furniture, fixtures and equipment.........	3-10 years

Preacquisition Costs

The Company incurs costs related to the acquisition of property sites. These costs are capitalized when it is probable that a site will be acquired. These costs are included in property and equipment. In the event the acquisition of the site is not consummated, the costs are charged to corporate operating expenses.

Deferred Loan Costs

The Company has incurred costs in obtaining financing. These costs have been deferred and are amortized over the life of the respective loans.

Pre-Opening Costs

The Company capitalizes compensation and other training-related costs incurred prior to the opening of a property and amortizes such costs over a period of twelve months. Pre-opening costs of $2,317,000 and $1,260,000 as of December 31, 1998, and 1997, respectively, are included in other current assets, net of accumulated amortization of $1,563,000 and $613,000, respectively.

Organization Costs

Organization costs are amortized over sixty months using the straight-line method. As of December 31, 1998 and 1997, costs of $679,000 and $568,000, respectively, reduced by accumulated amortization of $163,000 and $84,000, respectively, are included in other assets.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and for operating loss and tax carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the related temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Revenue Recognition

Room revenue and other revenue are recognized when earned.

Net Income Per Share

The Company determines earnings per share ("EPS") in accordance with Statement of Financial Accounting Standards ("SFAS") Statement No. 128, "Earnings Per Share". For the years ended December 31, 1998, 1997 and 1996, the computation of diluted EPS does not include approximately 8,828,000, 3,180,000 and 165,000 weighted average shares, respectively, of Common Stock represented by outstanding options because the exercise price of the options was greater than the average market price of Common Stock during the period.

Business Segment

The Company operates principally in one business segment which is to develop, own, and operate extended stay lodging facilities.

New Accounting Pronouncements

In April, 1998, the Accounting Standards Executive Committee released Statement of Position 98-5, "Reporting on the Costs of Start-up Activities" ("SOP 98-5"). SOP 98-5 requires that start-up costs, including pre-opening and organizational costs be expensed as incurred and is effective for financial statements issued for periods beginning after December 15, 1998. At December 31, 1998, the Company had unamortized pre-opening and organization costs of approximately $1.3 million. Under SOP 98-5, the Company would have reported an increase in expenses of approximately $139,000 for the year ended December 31, 1998.

Reclassification

Certain previously reported amounts have been reclassified to conform with the current presentation.

Note 3--Property and Equipment

Property and equipment consist of the following:

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
<S>	<C>	<C>
Land and improvements, including land under current development	$ 408,767	$ 289,820
Buildings and improvements	961,063	449,782
Furniture, fixtures, equipment and supplies	211,320	128,104
Construction in progress	128,337	207,223
	1,709,487	1,074,929
Less: Accumulated depreciation	72,153	32,188
Total property and equipment	$ 1,637,334	$1,042,741

</TABLE>

The Company had commitments totaling approximately $120.0 million to complete construction of additional extended stay properties at December 31, 1998.

For the years ended December 31, 1998, 1997 and 1996 the Company incurred interest of $41,014,000, $1,731,000, and $332,000, respectively, of which $17,617,000, $1,731,000, and $329,000, respectively, was capitalized and included in the cost of buildings and improvements.

Note 4--Options to Purchase Property Sites

As of December 31, 1998, the Company had options to purchase parcels of real estate in 30 locations in 14 states. The Company had paid approximately $2.3 million in connection with these options as of December 31, 1998. If the Company does not acquire these parcels, the amounts paid in connection with the options may be forfeited under certain circumstances. These amounts are included in property and equipment.

Note 5--Purchase Acquisitions of Extended Stay Properties

During 1996, the Company acquired ten (10) extended stay facilities from a number of unrelated sellers (the "Acquisitions") for approximately $59.5 million, which was paid for by the issuance of approximately 4.5 million shares of Common Stock valued at approximately $55.2 million and approximately $4.3 million in cash. As a part of the Acquisitions, the Company assumed and subsequently retired liabilities aggregating approximately $470,000 under certain leases for personal property.

The Acquisitions were accounted for using the purchase method of accounting and, accordingly, the results of operations of the properties are included in the consolidated statements of income from the date of acquisition.

The following unaudited pro forma condensed statement of income of the Company is presented as if the Company had completed the Acquisitions, excluding one of the acquisitions which did not meet certain materiality standards (the "Significant Acquisitions") on January 1, 1996. This pro forma information is based in part upon the consolidated statements of income of each of the Significant Acquisitions. In management's opinion, all adjustments necessary to reflect the effects of these transactions have been made. This pro forma condensed consolidated statement of income is not necessarily indicative of what actual results of operations of the Company would have been assuming such transactions had been completed as of January 1, 1996, nor does it purport to represent the results of operations for future periods.

	Pro Forma for the Year Ended December 31, 1996
Total revenue	$ 44,022
Total costs and expenses	42,162
Income from operations	1,860
Interest income	13,744
Income before income taxes	15,604
Provision for income taxes	6,277
Net income	$ 9,327
Net income per share:	
Basic	$ 0.13
Diluted	$ 0.12
Weighted average shares:	
Basic	74,448
Diluted	76,450

Note 6--Long-Term Debt

In September 1997, the Company executed an agreement with various banks establishing a credit facility that provided for up to $500 million of revolving loans on a senior collateralized basis that had a maturity of December 31, 2002 to be used for general corporate purposes, including the construction and acquisition of extended stay properties. Upon entering into the revolving credit facility, the Company terminated two mortgage loan facilities, which had provided for an aggregate of $400 million in mortgage loans. In March 1998, the Company amended the revolving credit facility and, as amended, it became the Credit Facility. The Credit Facility was again amended in September 1998 and December 1998.

The Credit Facility provides for a $350 million revolving loan facility (the "Revolving Facility"), a $150 million term loan facility (the "Tranche A Facility"), a $200 million term loan facility (the "Tranche B Facility"), and a $100 million term loan facility (the "Tranche C Facility"). As of December 31, 1998, the Company had outstanding loans of $105 million under the Revolving Facility, $150 million under the Tranche A Facility and $200 million under the Tranche B Facility. At least $275 million of loans must be outstanding under the Revolving Facility on the date the Tranche C Facility is funded.

Loans under the Credit Facility bear interest, at the Company's option, at either a prime-based rate ("Base Rate") or a LIBOR-based rate ("Eurodollar Rate"), plus an applicable margin. The applicable margin is an annual rate that fluctuates based on the Company's ratio of Consolidated Debt to Consolidated EBITDA (as defined in the Credit Facility). The applicable margin for the various loan facilities in the Credit Facility are shown in the table below:

	Base Rate	Eurodollar Rate
Revolving Facility............	0-0.875%	1.00-1.875%
Tranche A Facility............	0-0.875%	1.00-1.875%
Tranche B Facility............	1.75%	2.75%
Tranche C Facility............	2.50%	3.50%

The loans under the Revolving Facility and the Tranche A Facility mature on December 31, 2002. The loans under the Tranche B Facility and the Tranche C Facility mature on December 31, 2003 and 2004, respectively, but are subject to principal payments of 1% of the initial loan amounts in each of the years 1999 through 2002 for the Tranche B Facility and 2000 through 2003 for the Tranche C Facility. The remaining balances must be repaid in four equal quarterly installments in the years of maturity.

The Company's obligations under the Credit Facility are guaranteed by each of its subsidiaries. They are also collateralized by a first priority lien on all stock owned by the Company and its subsidiaries and all other current and future assets of the Company and its subsidiaries (other than mortgages on the Company's and its subsidiaries' real property).

The Credit Facility contains a number of negative covenants, including, among others, covenants that limit the Company's ability to incur debt, make investments, pay dividends, prepay other indebtedness, engage in transactions with affiliates, enter into sale-leaseback transactions, create liens, make capital expenditures, acquire or dispose of assets, or engage in mergers or acquisitions. In addition, the Credit Facility contains affirmative covenants, including, among others, covenants that require the Company to maintain its corporate existence, comply with laws, maintain its properties and insurance, and deliver financial and other information to the lenders. The Credit Facility also requires the Company to comply with certain financial tests and to maintain certain financial ratios on a consolidated basis.

On March 10, 1998, the Company issued $200 million aggregate principal amount of Senior Subordinated Notes (the "Notes"). The Notes bear interest at an annual rate of 9.15%, payable semiannually on March 15 and September 15 of each year and mature on March 15, 2008. The Company may redeem the Notes beginning on March 15, 2003. The initial redemption price is 104.575% of their principal amount, plus accrued interest. The redemption price declines each year after 2003 and is 100% of their principal amount, plus accrued interest, after 2006. In addition, before March 15, 2001, the Company may redeem up to $70 million of the Notes, using the proceeds from certain sales of the Company's stock, at 109.15% of their principal amount, plus accrued interest.

The Notes are uncollateralized and are subordinated to all of the Company's senior indebtedness including the Credit Facility, and contain certain covenants for the benefit of the holders of the Notes. These covenants, among other things, limit the Company's ability to incur additional indebtedness, pay dividends and make investments and other restricted payments, enter into transactions with 5% stockholders or affiliates, create liens, and sell assets.

At December 31, 1998, aggregate maturities of long-term debt were as follows:

1999	$ 2,000
2000	2,000
2001	2,000
2002	257,000
2003	192,000
Thereafter	200,000
	$ 655,000

An aggregate of $655 million and $135 million was outstanding at December 31, 1998 and 1997, respectively, with a weighted average interest rate of 7.88% and 7.28%, respectively. The Company believes that there is no material difference in the carrying amount (including the terms and conditions outlined above) and the estimated fair value of the Credit Facility. The Notes had an estimated fair value of approximately $187 million at December 31, 1998.

Note 7--Income Taxes

Income tax expense consists of the following:

	Year Ended December 31,		
	1998	1997	1996
Current income taxes:			
U.S. federal	$ 10,642	$ 6	$ 2,137
State and local			520
	10,642	6	2,657
Deferred income taxes:			
U.S. federal	6,552	5,137	2,069
State and local	1,499	695	505
	8,051	5,832	2,574
Total income tax expense	$ 18,693	$ 5,838	$ 5,231

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 35.0% to pretax income as a result of the following:
<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Computed "expected" tax rate	35.0%	35.0%	35.0%
Increase (reduction) in income taxes resulting from:			
State and local income taxes, net of federal benefit	4.9	4.8	4.9
Tax exempt interest income		(5.0)	
Merger expenses		32.1	
Other	0.1	2.0	0.4
Annual effective income tax rate	40.0%	68.9%	40.3%

</TABLE>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1998 and 1997 are presented below:

	1998	1997
Deferred tax assets:		
Net operating loss carryforward	$ 12,834	$ 4,029
Alternative minimum tax credit carryforward	9,396	6
Other	5,505	2,860
Total deferred tax assets	27,735	6,895
Deferred tax liability:		
Property and equipment	(46,490)	(18,393)
	$ (18,755)	$ (11,498)

At December 31, 1998, the Company had net operating loss carryforwards for federal income tax purposes of approximately $29,771,000, expiring in years 2011 through 2018, and alternative minimum tax credits of approximately $9,396,000, which may be carried forward indefinitely.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Note 8--Stockholders' Equity

In April, 1996, SPH closed a public offering of 4,855,347 shares of common stock, and 319,653 shares sold by selling stockholders at $16.83 per share (number of shares and price per share have not been adjusted for the Merger). Net cash proceeds to SPH were approximately $76.8 million, which excluded any proceeds received by the selling stockholders.

On May 9, 1996, the Board of Directors of ESA declared a 2-for-1 stock split effected in the form of a stock dividend.

On June 5, 1996, ESA closed a public offering of 19,550,000 shares of its Common Stock at a public offering price of $15.50 per share. The proceeds to ESA of such offering were approximately $289.0 million, net of offering expenses.

On July 19, 1996, a three-for-two split of SPH common stock was effected in the form of a stock dividend.

On February 6, 1997, the Company sold 11.5 million shares of Common Stock in a private placement transaction resulting in net proceeds of approximately $198.1 million.

On April 11, 1997, the Company's stockholders approved an Amendment of the Restated Certificate of Incorporation increasing the number of authorized shares of Common Stock, par value $.01, from 200 million to 500 million shares.

On June 9, 1997, the Company announced that its Board of Directors had approved a plan to have the Common Stock listed on the New York Stock Exchange, Inc. ("NYSE") and to move trading in the Common Stock from the Nasdaq National Market ("Nasdaq") to the NYSE. The Common Stock began trading on the NYSE on June 30, 1997.

Shares of preferred stock may be issued from time to time, in one or more series, as authorized by the Board of Directors. Prior to issuance of shares of each series, the Board will designate for each such series, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption, as are permitted by law. No shares of preferred stock are outstanding and the Company has no present plans to issue any shares of preferred stock.

Note 9--Stock Option Plans

ESA has five stock option plans including the 1995, 1996, 1997 and 1998 Employee Stock Option Plans (the "Employee Plans") and the 1995 Stock Option Plan for Non-Employee Directors (the "Directors' Plan"). The Employee Plans and the Directors' Plan provide for grants to certain officers, directors and key employees of stock options to purchase shares of Common Stock. Options granted under the Employee Plans and the Directors' Plan expire ten years from the date of grant. Options granted under the Employee Plans vest ratably over a four year period, and options granted under the Directors' Plan vest six months from the date of grant.

SPH had two stock option plans, the 1995 Stock Incentive Plan and the 1995 Non-Employee Directors' Stock Incentive Plan (collectively, the "SPH Plans"). Two types of options, incentive stock options and nonqualified stock options, were granted under the SPH Plans. All options granted under the SPH Plans were granted at an exercise price equal to the market price of the SPH common stock on the date of grant and may not be exercised more than 10 years after the date granted. Options granted under the SPH Plans to purchase 1,072,565 shares of SPH common stock were converted into options to purchase 1,316,252 shares of Common Stock (with a corresponding adjustment to the exercise price) upon completion of the Merger. Because the Merger effected a "change of control" of SPH, each of these options became immediately exercisable.

A summary of the status of the Employee Plans, the Directors' Plan, and options granted under the SPH Plans (collectively the "Plans") as of December 31, 1998, 1997 and 1996 and changes during the years ending on those dates is presented below:
<TABLE>
<CAPTION>

	1998		1997		1996	
	Number of Shares	Price Per Share	Number of Shares	Price Per Share	Number of Shares	Price Per Share
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year...	10,532	$2.38-22.38	7,128	$2.38-22.38	3,267	$ 2.38-12.49
Granted...........................	6,971	6.41-15.00	5,125	11.28-20.50	4,030	10.50-22.38
Exercised.........................	(534)	7.43-15.00	(402)	2.38-14.94	(21)	2.38
Forfeited.........................	(2,427)	2.38-20.88	(1,319)	2.38-20.63	(148)	2.38-14.44
Outstanding at end of year.........	14,542	$2.38-22.38	10,532	$2.38-22.38	7,128	$ 2.38-22.38
Options exercisable at year-end....	4,882	$2.38-22.38	3,489	$2.38-22.38	1,489	$ 2.38-12.81
Available for future grants........	6,338		5,183		3,240	
Total shares reserved for issuance as of December 31..............	20,880		15,715		10,368	
Weighted average fair value of options granted during the year...........................		$ 4.42		$ 6.93		$ 5.55

</TABLE>

On January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock Based Compensation." As permitted by SFAS No. 123, the Company has chosen to apply APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for the Plans. Accordingly, no compensation cost has been recognized for options granted under the Plans. Had compensation cost for the Plans been determined based on the fair value at the date of grant for awards under the Plans consistent with the method of SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below.

	1998		1997		1996	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income (loss)	$28,038	$20,582	$ 2,636	$(8,788)	$ 7,756	$3,482
Net income (loss) per share:						
Basic	$ 0.29	$ 0.21	$ 0.03	$ (0.09)	$ 0.11	$ 0.05
Diluted	$ 0.29	$ 0.21	$ 0.03	$ (0.09)	$ 0.10	$ 0.05

The fair value of each option grant is estimated on the date of grant using the Black-Scholes multiple option-pricing model with the following assumptions used for grants in 1998, 1997 and 1996: dividend yield of 0%, expected volatility of 33.47%, risk-free interest rate of 6% and expected life of 5.5 years.

The following table summarizes information about the Company's stock options at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding as of December 31, 1998	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding as of December 31, 1998	Weighted Average Exercise Price
$ 2.38-2.38	1,018	6.64	$2.38	729	$2.38
$ 6.41-6.50	915	6.91	6.49	721	6.50
$ 6.78-9.50	3,894	9.84	9.46	370	8.15
$ 9.53-10.50	859	1.06	10.46	800	10.50
$ 10.84-11.38	2,670	8.97	11.36	173	11.35
$ 11.41-13.38	1,235	7.34	13.15	577	13.18
$ 13.47-14.88	875	8.06	14.07	556	14.03
$ 14.91-18.38	587	8.26	15.67	243	15.73
$ 18.50-18.50	2,332	7.98	18.50	621	18.50
$ 18.87-22.38	157	7.97	20.28	92	20.40
$ 2.38-22.38	14,542	8.00	$11.63	4,882	$10.87

Note 10--Related Party Transactions

In 1996, the Company entered into a ten year lease for a suite at Pro Player Stadium for a base rental of $115,000 per year, and a 3-year lease for a suite at Homestead Motorsports Complex for a base rental of approximately $53,000 per year. In 1998, the Company entered into a three year lease for an additional suite at Pro Player Stadium for a base rental of $83,000 per year and a seven year lease for a suite at the Broward County Arena for a base rental of $120,000 per year. The leases are subject to certain additional charges and periodic escalation. The Chairman of the Company's Board of Directors owns Pro Player Stadium and had an approximate 50% ownership interest (which was reduced to approximately 10% in 1997) in Homestead Motorsports Complex. In addition, the Chairman of the Company's Board of Directors is the Chairman of the Board of Directors of a company which operates the Broward County Arena.

During 1998, 1997, and 1996, the Company incurred charges of approximately $1,726,000, $1,682,000, and $983,000 from a company controlled by the Chief Executive Officer of the Company for the use of airplanes.

The Chief Executive Officer of the Company serves as chairman of the board of a company from which the Company leases office space. The lease, which expires December 31, 2001, provides for monthly payments of $4,635 and contains a three year renewal option. A previous lease agreement for different office space provided for monthly rent of $6,400 plus certain additional charges. During 1998 and 1997, the Company incurred charges of approximately $75,000 and $91,000 related to these agreements.

Two members of the Company's Board of Directors also serve on the board of directors of a company which performs employment related services for the Company. During 1998, 1997 and 1996, the Company incurred charges of approximately $251,000, $126,000 and $23,000, respectively, for such services.

Note 11--Merger, Financing and Other Charges

The Company's normal operating procedures call for the investment of varying amounts in our sites under option in terms of (1) earnest money which would be applied to the purchase of a site, but that in certain circumstances may not be refundable, (2) legal, environmental, engineering, and architectural outlays needed to determine the feasibility of acquiring a site and constructing a hotel on that site, and (3) salaries, wages, and travel costs of personnel related to the sites. The Company capitalizes these expenses in accordance with generally accepted accounting principles. In the quarter ended September 30, 1998, the Company announced a reduction in its development plans for 1999 and 2000 as a result of unfavorable capital market conditions. This meant that certain sites under option would not be developed. As a result, a valuation allowance of $12.0 million was established for the write-off of expenses related to the sites . This resulted in a corresponding expense during the quarter ended September 30, 1998. At December 31, 1998, a total of $10.5 million of those costs, including $265,000 in termination payments to employees, had been charged against the allowance and $1.5 million was included in other current liabilities.

During 1997, the Company recorded merger, financing, and other charges totaling $19.9 million. These pre-tax charges consisted of (i) $9.7 million of merger expenses and costs associated with the integration of SPH's operations following the Merger, (ii) the write-off of $9.7 million of deferred costs associated with two mortgage loan facilities, which were terminated upon execution of a revolving credit facility, and (iii) a charge of $500,000 in connection with moving the listing of the Company's Common Stock to the NYSE from Nasdaq.

Note 12--Quarterly Results (Unaudited)

The following is a summary of quarterly operations for the years ended December 31, 1998 and 1997:
<TABLE>
<CAPTION>

	1998			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter

<S> <C> <C> <C> <C>

Total revenue	$ 54,231	$ 70,044	$ 81,006	$ 77,807
Operating income	9,126	21,421	15,582	21,126
Net income	4,802	10,116	5,492	7,630
Net income per share:				
Basic	$ 0.05	$ 0.11	$ 0.06	$ 0.08
Diluted	$ 0.05	$ 0.10	$ 0.06	$ 0.08

	1997			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$ 19,763	$ 29,028	$ 38,773	$ 43,236
Operating income (loss)	117	(14,521)	7,961	5,675
Net income (loss)	2,470	(9,093)	5,644	3,615
Net income (loss) per share:				
Basic	$ 0.03	$ (0.10)	$ 0.06	$ 0.04
Diluted	$ 0.03	$ (0.10)	$ 0.06	$ 0.04

</TABLE>

Note 13--Commitments and Contingencies

The Company is not a party to any significant litigation or claims, other than routine matters incidental to the operation of the business of the Company. To date, no claims have had a material adverse effect on the Company nor does the Company expect that the outcome of any pending claims will have such an effect.

The Company and its subsidiaries lease real property under various operating leases with terms of one to seventeen years. Expenses under real property leases for the years ended December 31, 1998, 1997 and 1996 were $1,576,000, $1,012,000 and $708,000, respectively.

Future minimum lease obligations under noncancelable real property leases with initial terms in excess of one year at December 31, 1998 are as follows:

Year Ending December 31:	
1999	$ 1,447
2000	1,453
2001	1,230
2002	668
2003	667
Thereafter	2,089
	$ 7,554

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors

The information appearing under the caption "Election of our Board of Directors" in our Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 1999 (the "Proxy Statement") is incorporated herein by reference.

Executive Officers

Our executive officers, their ages at December 31, 1998, and their positions with us are set forth below. Our executive officers are elected by and serve at the discretion of our Board of Directors.

<TABLE>
<CAPTION>

Name	Age	Position

H. Wayne Huizenga*..................	61	Chairman of the Board of Directors
George D. Johnson, Jr.*.............	56	President, Chief Executive Officer, and Director
Robert A. Brannon...................	48	Senior Vice President, Chief Financial Officer, Secretary and Treasurer
Jay S. Witzel.......................	51	President and Chief Operating Officer of ESA Management, Inc.

* Member of Executive Committee of the Board of Directors

H. Wayne Huizenga became one of our director's in August 1995 and serves as the Chairman of our Board of Directors. Mr. Huizenga has also served as Chairman of the Board of Republic Industries, Inc. ("Republic"), which owns the nation's largest chain of franchised automotive dealerships, is building a chain of used vehicle megastores, and owns National Car Rental and Alamo Rent-A-Car, since August 1995. Since October 1996, Mr. Huizenga has served as Co-Chief Executive Officer of Republic and from August 1995 until October 1996, Mr.Huizenga served as Chief Executive Officer of Republic. Since June 1998, Mr. Huizenga has served as a director of NationsRent, Inc. ("NationsRent"), a developing national equipment rental company which markets products and services primarily to a broad range of construction and industrial customers. Since May 1998, Mr. Huizenga has served as Chairman of the Board and Chief Executive Officer of Republic Services, Inc. ("Republic Services"), a leading provider of non-hazardous solid waste collection and disposal services. Since September 1996, Mr. Huizenga has been Chairman of the Board of Florida Panthers Holdings, Inc. ("FPHI"), a leisure-time, recreation, sports, and entertainment company which owns and operates the Florida Panthers professional sports franchise and certain resort and other facilities. From September 1994 until October 1995, Mr. Huizenga served as the Vice-Chairman of Viacom Inc. ("Viacom"), a diversified entertainment and communications company. During the same period, Mr. Huizenga also served as the Chairman of the Board of Blockbuster Entertainment Group, a division of Viacom. From April 1987 through September 1995, Mr. Huizenga served as the Chairman of the Board and Chief Executive Officer of Blockbuster Entertainment Corporation ("Blockbuster"), during which time he helped build Blockbuster from a 19-store chain into the world's largest video rental company. In September 1994, Blockbuster merged into Viacom. In 1971, Mr. Huizenga co-founded Waste Management, Inc., which he helped build into the world's largest integrated solid waste services company, and he served in various capacities, including President, Chief Operating Officer and a director from its inception until 1984. Mr. Huizenga also currently owns or controls the Miami Dolphins, a professional sports franchise, as well as Pro Player Stadium, in South Florida and is a director of theglobe.com, an internet on-line community.

George D. Johnson, Jr. has been our President, Chief Executive Officer, and a director since January 1995. He is responsible for all aspects of our development, operation, marketing, and personnel. Mr. Johnson is the former President of the Consumer Products Division of Blockbuster Entertainment Group, a division of Viacom. In this position he was responsible for all U.S. video and music stores. Mr. Johnson has over 30 years of experience developing and managing various businesses. He was formerly the managing general partner of WJB Video, the largest Blockbuster franchisee which developed over 200 video stores prior to a merger with Blockbuster in 1993. Mr. Johnson also is the managing member of American Storage, LLC, a chain of 25 self-storage facilities located in

the Carolinas and Georgia. He formerly served as a director of Viacom and Chairman of the Board of Home Choice Holdings, Inc. and currently serves on the board of directors of Republic, FPHI, and Duke Energy Corporation. He has been the Chairman of the Board of Directors of Johnson Development Associates, Inc. since its founding in 1986. Johnson Development Associates, Inc. is a real estate management, leasing, and development company controlling approximately four million square feet of commercial, retail, and industrial property located in the Carolinas and Georgia which are owned by various partnerships controlled by Mr. Johnson and his brother, Stewart H. Johnson. Mr. Johnson practiced law in Spartanburg, South Carolina from 1967 until 1986 and served three terms in the South Carolina House of Representatives.

Robert A. Brannon has been our Chief Financial Officer since February 1995 and our Senior Vice President, Secretary, and Treasurer since August 1995. He is responsible for overseeing accounting procedures and controls, along with financial reporting and cash management. Prior to joining our Company, he served as Vice President-Finance for the Domestic Home Video division of the Blockbuster Entertainment Group, where he was responsible for financial management and control of over 2,000 video stores. Prior to joining Blockbuster in 1993, Mr. Brannon was Chief Financial Officer for WJB Video and for American Storage, LLC. In those capacities, Mr. Brannon was responsible for the financial aspects of the development of over 200 video stores and 23 self-storage facilities. Prior to his participation in these businesses, Mr. Brannon served as a Certified Public Accountant in various management and staff positions with local and national accounting firms.

Jay S. Witzel has been the President and Chief Operating Officer of ESA Management, Inc. since August 1997. ESA Management, Inc. is our wholly-owned subsidiary that develops properties and provides management services for all of the lodging facilities we own. In this position, Mr. Witzel is responsible for all aspects of operations and marketing of our brands. Mr. Witzel has over 20 years of experience in managing operations within the hospitality industry. Most recently, Mr. Witzel served as President and Chief Operating Officer of Radisson Hospitality Worldwide, a chain of over 350 hotels. Mr. Witzel began his career in the hospitality industry in 1971 with Hyatt Hotels Corporation and served in progressively more responsible positions with Hyatt and other organizations before joining Radisson in 1987 as Vice-President-Operations.

ITEM 11. EXECUTIVE COMPENSATION

Information appearing under the caption "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information appearing under the caption "Principal Stockholders" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information appearing under the caption "Certain Transactions" in the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) Financial Statements

Reference is made to the information set forth in Part II, Item 8 of this Report, which information is incorporated herein by reference.

(a)(2) Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because they are not required under the related instructions, are not applicable, or the information has been provided in the consolidated financial statements or the notes thereto.

(a)(3) Exhibits

The exhibits to this report are listed in the Exhibit Index included elsewhere herein. Included in the exhibits listed therein are the following exhibits which constitute management contracts or compensatory plans or arrangements:

10.1 Amended and Restated 1995 Stock Option Plan of the Company

10.2 1995 Stock Option Plan for Non-Employee Directors of the Company

10.3 Amended and Restated 1996 Employee Stock Option Plan of the Company

10.8 1997 Stock Option Plan of the Company

10.9 1998 Employee Stock Option Plan

(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the fourth quarter of 1998.

(c) Exhibits

Exhibit Number	Description of Exhibit
3.1(a)	Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1(a) to the Company's Registration Statement on Form S-1, Registration No. 33-98452)
3.1(b)	Certificate of Amendment of Restated Certificate of Incorporation of the Company dated June 4, 1997 (incorporated by reference to Exhibit 3.1(b) to the Company's Report on Form 10-K for the year ended December 31, 1997)
3.1(c)	Conformed copy of Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1(c) to the Company's Report on Form 10-K for the year ended December 31, 1997)
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, Registration No. 33-98452)
4.1	Specimen certificate representing shares of Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, Registration No. 33-98452)
10.1	Amended and Restated 1995 Employee Stock Option Plan of the Company (incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the quarter ended March 31, 1996)
10.2	1995 Stock Option Plan for Non-Employee Directors of the Company (incorporated by reference to Exhibit 10.6 to the Company's Report on Form 10-Q for the quarter ended March 31, 1996)

Exhibit Number	Description of Exhibit
10.3	Amended and Restated 1996 Employee Stock Option Plan of the Company (incorporated by reference to Exhibit 10.10 to the Company's Report on Form 10-Q for the quarter ended March 31, 1996)
10.4	Aircraft Dry Lease dated April 5, 1996 between Morgan Corp. and the Company (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1, Registration No. 333-03373)
10.5	Homestead Motorsports Complex Executive Suite License Agreement dated February 14, 1996 among The Homestead Motorsports Joint Venture, Miami Motorsports Joint Venture, and the Company (incorporated by reference to Exhibit 10.13 to the Company's Report on Form 10-Q for the quarter ended March 31, 1996)
10.6	Joe Robbie Stadium Executive Suite License Agreement dated March 18, 1996 between Robbie Stadium Corporation and the Company (incorporated by reference to Exhibit 10.14 to the Company's Report on Form 10-Q for the quarter ended March 31, 1996)
10.7	Aircraft Dry Lease dated December 28, 1996 between Wyoming Associates, Inc. and the Company (incorporated by reference to Exhibit 10.16 to the Company's Report on Form 10-K for the year ended December 31, 1996)
10.8	1997 Stock Option Plan of the Company (incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the quarter ended June 30, 1997)

10.9	1998 Employee Stock Option Plan
10.10(a)	Credit Agreement, dated as of September 26, 1997 and Amended and Restated as of March 10, 1998 (the "Credit Agreement"), by and among the Company and Morgan Stanley Senior Funding, Inc., as Syndication Agent and Arranger, The Industrial Bank of Japan, Limited, as Administrative Agent, and various banks (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the quarter ended March 31, 1998)
10.10(b)	Amendment, dated as of September 18, 1998, to the Credit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the quarter ended September 30, 1998)
10.10(c)	Amendment, dated as of December 15, 1998, to the Credit Agreement
10.11(a)	Sublease Agreement dated as of February 1997 by and between Johnson Development Associates and ESA Management, Inc. (incorporated by reference to Exhibit 10.19 to the Company's Report on Form 10-K for the year ended December 31, 1997)
10.11(b)	Lease Agreement dated as of November 30, 1998 by and between Bell Hill, LLC and ESA Management, Inc.
10.12	Aircraft Dry Sub-Lease Agreement, dated as of July 2, 1998, between the Company and Advance America Cash Advance Centers, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the quarter ended June 30, 1998)
10.13	Pro Player Stadium Executive Suite License Agreement, dated as of July 16, 1998, by and between South Florida Stadium Corporation d/b/a Pro Player Stadium and the Company (incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the quarter ended September 30, 1998)
10.14	Broward County Arena Executive Suite License Agreement, by and between Arena Operating Company, Ltd. and the Company (incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the quarter ended September 30, 1998)
21.1	List of Subsidiaries of the Company
23.1	Consent of PricewaterhouseCoopers LLP
27.1	Financial Data Schedule

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on March 24, 1999.

EXTENDED STAY AMERICA, INC.

By: /S/ GEORGE D. JOHNSON, JR.

George D. Johnson, Jr.
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 24, 1999.

Signature	Title
Principal Executive Officer:	
/S/ GEORGE D. JOHNSON, JR.	President and Chief Executive Officer

George D. Johnson, Jr.

Principal Financial Officer:

/S/ ROBERT A. BRANNON -------------------------------- Robert A. Brannon	Senior Vice President, Chief Financial Officer, Secretary, and Treasurer

Principal Accounting Officer:

/S/ GREGORY R. MOXLEY -------------------------------- Gregory R. Moxley	Vice President--Finance

A Majority of the Directors:

/S/ H. WAYNE HUIZENGA -------------------------------- H. Wayne Huizenga	Director
/S/ DONALD F. FLYNN -------------------------------- Donald F. Flynn	Director
/S/ GEORGE D. JOHNSON -------------------------------- George D. Johnson	Director
/S/ STEWART H. JOHNSON -------------------------------- Stewart H. Johnson	Director
/S/ JOHN J. MELK -------------------------------- John J. Melk	Director
/S/ PEER PEDERSEN -------------------------------- Peer Pedersen	Director

EXHIBIT 10.9

EXTENDED STAY AMERICA, INC.

1998 EMPLOYEE STOCK OPTION PLAN

1. Statement of Purpose. The purpose of this Stock Option Plan (the "Plan") is to benefit Extended Stay America, Inc. (the "Company") and its subsidiaries by offering certain present and future key individuals a favorable opportunity to become holders of stock in the Company over a period of years, thereby giving them a stake in the growth and prosperity of the Company and encouraging the continuance of their services with the Company or its subsidiaries.

2. Administration. The Plan shall be administered by the Compensation Committee (the "Committee") of the board of directors of the Company (the "Board of Directors"), whose interpretation of the terms and provisions of the Plan and whose determination of matters pertaining to options granted under the Plan shall be final and conclusive. The Committee shall be composed of two or more disinterested members of the Board of Directors of the Company.

3. Eligibility. Options shall be granted only to key employees and consultants of the Company and its subsidiaries (including officers of the Company and its subsidiaries but excluding members of the Committee) selected initially and from time to time thereafter by the Committee on the basis of the special importance of their services in the management, development and operations of the Company or its subsidiaries (each such individual receiving options granted under the Plan and each other person entitled to exercise an option granted under the Plan is referred to herein as an "Optionee").

4. Granting of Options. (a) The Committee may grant options to employees, directors and consultants of the Company and its subsidiaries; provided, however, that members of the Committee shall not be eligible to receive grants of options under the Plan. Pursuant to the Plan, a maximum of 6,000,000 shares of the common stock, par value $.01 per share, of the Company (the "Common Stock") may be purchased from the Company, subject to adjustment as provided in Paragraph 10 hereof; provided, however, that the maximum number of shares subject to all options granted to an individual under the Plan shall in no event exceed 50% of the shares of Common Stock authorized for issuance under the Plan. Options granted under the Plan are intended not to be treated as incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

(b) No options shall be granted under the Plan subsequent to the tenth anniversary of the adoption of the Plan. In the event that an option expires or is terminated or canceled unexercised as to any shares, such released shares may again be optioned (including a grant in substitution for a canceled option). Shares subject to options may be made available from unissued or reacquired shares of Common Stock.

(c) Nothing contained in the Plan or in any option granted pursuant thereto shall confer upon any Optionee any right to be continued in the employment of, or a consulting arrangement with, the Company or any subsidiary, or interfere in any way with the right of the Company or its subsidiaries to terminate his or her employment or consulting arrangement at any time.

5. Option Price. The option price of any option granted under the Plan shall be determined by the Committee and shall not be less than the fair market value of the shares of Common Stock subject to the option on the date of the grant of such option. Unless the Committee otherwise determines, for purposes of this Paragraph 5, "fair market value" shall be the average of the highest and lowest sales prices of the Common Stock reported on the New York Stock Exchange ("NYSE") (or on the principal national stock exchange on which it is listed or quotation service on which it is listed) (as reported in The Wall Street Journal) on the date the option is granted (or, if the date of grant is not a trading date, on the first trading date immediately preceding the date of grant). In the event that the Common Stock is not listed on the NYSE or any other national stock exchange, the fair market value of the shares of Common Stock for all purposes of this Plan shall be reasonably determined by the Committee.

6. Duration of Options, Increments and Extensions. (a) Subject to the provisions of Paragraph 8 hereof, each option shall be for such term of not more than ten years as shall be determined by the Committee at the date of the grant. Each option shall become exercisable with respect to one-fourth of the total number of shares subject to the option 12 months after the date of its grant and with respect to an additional one-fourth at the end of each 12-month period thereafter during the succeeding three years.

(b) Notwithstanding any other provisions of the Plan to the contrary, the Committee may in its discretion (i) specifically provide as of the date of the grant for another time or times of exercise; (ii) accelerate the exercisability of any option, subject to such terms and conditions as the Committee deems necessary and appropriate to effectuate the purposes of the Plan, which may include, without limitation, a requirement that the Optionee grant to the Committee an option to repurchase all or a portion of the number of shares acquired upon exercise of the accelerated option for their fair market value, as determined by the Committee, as of the date of acceleration; (iii) at any time prior to the expiration or termination of any options previously granted, extend the term of any option (including such options held by officers) for such additional period or periods as the Committee, in its discretion, may determine. In no event, however, shall the aggregate option period with respect to any option, including the original term of the option and any extensions thereof, exceed ten years. Subject to the foregoing, all or any part of the options as to which the right to exercise has accrued may be exercised at the time of such accrual or at any time or times thereafter during the option term.

(c) In the event of a change in control of the Company, all outstanding options shall become immediately exercisable. For the purposes of the Plan, the term "change in control" shall mean (1) that any person is or becomes the beneficial owner, directly or indirectly, of at least 50% of the combined voting power of the Company's outstanding securities, except by reason of a repurchase by the Company of its own securities, or (2) that a change in the composition of the Board of Directors of the Company occurs as a result of which fewer than one-half of the incumbent directors are directors who either had been directors of the Company 24 months prior to such change or were elected or nominated for election to the Board of Directors with the approval of at least a majority of the directors who had been directors of the Company 24 months prior to such change and who were still in office at the time of the election or nomination.

7. Exercise of Option. (a) An option may be exercised by giving written notice to the Committee, specifying the number of shares to be purchased. The option price for the number of shares of Common Stock for which the option is exercised shall become immediately due and payable; provided, however, that in lieu of cash an Optionee may, with the approval of the Committee, exercise his or her option by (i) delivering a promissory note in accordance with the terms of the Plan and in a form specified by the Company; (ii) tendering to the Company shares of Common Stock owned by him or her and with the certificates therefor registered in his or her name, having a fair market value equal to the cash exercise price of the shares being purchased; or (iii) delivery of an irrevocable written notice instructing the Company to deliver the shares of Common Stock being purchased to a broker selected by the Company, subject to the broker's written guarantee to deliver the cash to the Company, in each case equal to the full consideration of the exercise price for the shares of Common Stock being purchased. For this purpose, the per share value of Common Stock shall be the fair market value on the date of exercise (or, if the date of exercise is not a trading date, on the first trading date immediately preceding the date of exercise), which shall, unless the Committee otherwise determines, be the average of the highest and lowest sales prices of the Common Stock reported on the NYSE (or on the principal national stock exchange on which it is listed or quotation service on which it is listed) (as reported in The Wall Street Journal) on such date.

(b) In connection with the exercise of options granted under the Plan, the Company may make loans to such Optionees as the Committee, in its discretion, may determine. Such loans shall be subject to the following terms and conditions and such other terms and conditions as the Committee shall determine to be not inconsistent with the Plan. Such loans shall bear interest at such rates as the Committee shall determine from time to time, which rates may be below then current market rates or may be made without interest. In no event may any such loan exceed the fair market value, at the date of exercise, of the shares covered by the option, or portion thereof, exercised by the Optionee. No loan shall have an initial term exceeding two years, but any such loan may be renewable at the discretion of the Committee. When a loan shall have been made, shares of Common Stock having a fair market value at least equal to 150 percent of the principal amount of the loan shall be pledged by the Optionee to the Company as security for payment of the unpaid balance of the loan.

(c) At the time of the exercise of any option, the Company may require, as a condition of the exercise of such option, the Optionee to pay the Company an amount equal to the amount of the tax the Company may be required to withhold to obtain a deduction for federal and state income tax purposes as a result of the exercise of such option by the Optionee or to comply with applicable law. An Optionee may, with the approval of the Committee, make an election to satisfy the tax withholding obligation by either (1) tendering to the Company shares of Common Stock owned by him or her and with the certificates therefor registered in his or her name, having a fair market value equal to the tax withholding obligation, (2) deduct from any cash payment pursuant to any broker-assisted option exercise (net to Optionee in cash or shares) an amount sufficient to satisfy any withholding tax requirements, or (3) instructing the Company to withhold from the shares of Common Stock otherwise issuable upon the exercise of the option that number of shares having a fair market value equal to the tax withholding obligation. The value of the shares to be delivered or withheld shall be based on the fair market value of the shares of Common Stock on the date of exercise, which shall, unless the Committee otherwise determines, be the average of the highest and lowest sales prices of the Common Stock reported on the NYSE (or on the principal national stock exchange on which it is listed or quotation service on which it is listed) (as reported in The Wall Street Journal) on the date of exercise.

(d) At the time of any exercise of any option, the Company may, if the Company shall determine it necessary or desirable for any reason, require the Optionee (or his or her heirs, legatees, or legal representative, as the case may be) as a condition upon the exercise thereof, to deliver to the Company a written representation of present intention to purchase the shares for investment and not for distribution. In the event such representation is required to be delivered, an appropriate legend may be placed upon each certificate delivered to the Optionee upon his or her exercise of part or all of the option and a stop order may be placed with the transfer agent for the Common Stock. Each option shall also be subject to the requirement that, if at any time the Company determines, in its discretion, that the listing, registration or qualification of the shares subject to the option upon any securities exchange or under any state, federal or foreign law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issue or purchase of shares thereunder, the option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

8. Termination of Employment or Consulting Arrangement - Exercise Thereafter. (a) In the event the employment or consulting arrangement of an Optionee with the Company or any of its subsidiaries is terminated for any reason other than the Optionee's death, permanent disability, retirement after age 65 or following a change in control (as defined in Paragraph 6(c) hereof), such Optionee's option shall expire and all rights to purchase shares pursuant thereto shall terminate immediately. Temporary absence from employment because

of illness, vacation, approved leaves of absence, and transfers of employment among the Company and its subsidiaries, shall not be considered to terminate employment or to interrupt continuous employment. Temporary cessation of the provision of consulting services because of illness, vacation or any other reason approved in advance by the Company shall not be considered a termination of the consulting arrangement or an interruption of the continuity thereof. Conversion of an Optionee's employment relationship to a consulting arrangement shall not result in termination of previously granted options.

(b) In the event of termination of employment or consulting arrangement following a change in control (as defined in Paragraph 6(c) hereof), the option may be exercised in full (without regard to any times of exercise established under Paragraph 6 hereof; provided, however, that no options shall be exercisable during the first six months after the date of grant) by the Optionee or, if the Optionee is not living, by the Optionee's heirs, legatees, or legal representatives, as the case may be, during its specified term. In the event of termination of employment or consulting arrangement because of death, permanent disability (as that term is defined in Section 22(e)(3) of the Code, as now in effect or as shall be subsequently amended) or retirement after age 65, the option may be exercised by the Optionee, or, if the Optionee dies after such termination, by the Optionee's heirs, legatees, or legal representatives, as the case may be, at any time during its specified term prior to three years after the date of such termination, but only to the extent the option was exercisable at the date of such termination.

(c) Notwithstanding any other provision of the Plan to the contrary, the Committee may in its discretion provide for such other terms of expiration and termination of an option in the event of termination of the employment or consulting arrangement of the Optionee as the Committee shall determine.

9. Non-Transferability of Options. No option shall be transferable by the Optionee otherwise than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order and each option shall be exercisable during an Optionee's lifetime only by the Optionee or by the Optionee's legal representative. This restriction on transferability is effective only so long as it is required pursuant to Section 16 under the Securities Exchange Act of 1934, as amended. At the time such restriction on transferability is no longer so required, the Committee, in its discretion, may permit the transfer of an option on such terms and subject to such conditions as the Committee may deem necessary or appropriate or as otherwise may be required by applicable law or regulation.

10. Adjustment. The number of shares subject to the Plan and to options granted under the Plan shall be adjusted as follows: (a) in the event that the number of outstanding shares of Common Stock is changed by any stock dividend, stock split or combination of shares, the number of shares subject to the Plan and to options granted thereunder shall be proportionately adjusted; (b) in the event of any merger, consolidation or reorganization of the Company with any other corporation or legal entity there shall be substituted, on an equitable

basis as determined by the Committee, for each share of Common Stock then subject to the Plan and for each share of Common Stock then subject to an option granted under the Plan, the number and kind of shares of stock or other securities to which the holders of shares of Common Stock will be entitled pursuant to the transaction; and (c) in the event of any other relevant change in the capitalization of the Company, the Committee shall provide for an equitable adjustment in the number of shares of Common Stock then subject to the Plan and to each share of Common Stock then subject to an option granted under the Plan. In the event of any such adjustment, the option price per share of Common Stock shall be proportionately adjusted.

11. Amendment of the Plan. The Board of Directors of the Company or any authorized committee thereof may amend or discontinue the Plan at any time. However, no such amendment or discontinuance shall (a) without the consent of the Optionee change or impair any option previously granted, or (b) without the approval of the holders of a majority of the shares of the Common Stock which vote in person or by proxy at a duly held stockholders' meeting, (i) increase the maximum number of shares which may be purchased by all employees pursuant to this Plan, (ii) change the minimum purchase price of any option, or (iii) change the limitations on the option period or increase the time limitations on the grant of options.

12. Effective Date. The Plan is effective as of February 3, 1998.

10.10(c)

TRANCHE C SUPPLEMENT

among

EXTENDED STAY AMERICA, INC.

and

VARIOUS TRANCHE C BANKS

Dated as of December 15, 1998

TRANCHE C SUPPLEMENT

DATED: December 15, 1998

Reference is made to the Credit Agreement described in Item 1 of Annex I annexed hereto and made a part hereof (as such Credit Agreement may hereafter be amended, modified, extended, renewed, replaced, restated or supplemented from time to time, the "Credit Agreement"). Unless defined in Annex I attached hereto, capitalized terms defined in the Credit Agreement are used herein as therein defined. Extended Stay America, Inc. and each of the undersigned lending institutions (each a "Tranche C Bank") hereby agree as follows:

1. Each Tranche C Bank agrees that, subject to the terms and conditions set forth herein, in Annex I and in the Credit Agreement, it shall provide the Commitment under the Relevant Tranche C Term Loan Sub-Facility, as is indicated for such Tranche C Bank in Item 3 of Annex I. Each Tranche C Bank

hereby agrees that after giving effect to this Tranche C Supplement, each Tranche C Bank's Tranche C Term Loan Commitment will be as set forth in Item 3 of Annex I hereto. As used herein, the term "Relevant Tranche C Term Loan Sub-Facility" shall mean the Tranche C Term Loan Sub-Facility established pursuant to the Tranche C Supplement dated December 15, 1998.

2. Each Tranche C Bank (i) confirms that it has received a copy of the Credit Agreement and the other Credit Documents, together with copies of the financial statements referred to therein and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Tranche C Supplement; (ii) agrees that it will, independently and without reliance upon any Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) appoints and authorizes the Administrative Agent and the Syndication Agent to take such action as agents on its behalf and to exercise such powers under the Credit Agreement and the other Credit Documents as are delegated to the Administrative Agent and the Syndication Agent by the terms thereof, together with such powers as are reasonably incidental thereto; and (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Bank; and (v) in the case of a Tranche C Bank that is not already a Bank under the Credit Agreement and which is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) for Federal income tax purposes, agrees to provide to the Borrower and the Administrative Agent the appropriate Internal Revenue Service Forms (and, if applicable a Section 4.04(b)(ii) Certificate) described in Section 4.04(b) of the Credit Agreement.

3. Following the execution of this Tranche C Supplement by the Borrower and the Tranche C Banks, an executed original hereof (together with all attachments) will be delivered to the Administrative Agent. Upon the delivery of a fully executed original hereof to the Administrative Agent, as of the Supplement Effective Date, each Tranche C Bank shall be a party to the Credit Agreement and, to the extent provided in this Tranche C Supplement, have the rights and obligations of a Bank thereunder and under the other Credit Documents.

4. This Tranche C Supplement shall become effective as of the date (the "Supplement Effective Date") when (i) the Borrower, each Tranche C Bank and the Syndication Agent shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of telecopier) the same to the Administrative Agent at the Notice Office and (ii) each condition precedent set forth in Item 9 of Annex I attached hereto shall have been satisfied.

5. THIS TRANCHE C SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

6. From and after the Supplement Effective Date, all references in the Credit Agreement and the other Credit Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as supplemented hereby.

IN WITNESS WHEREOF, the parties hereto have caused this Tranche C Supplement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

EXTENDED STAY AMERICA, INC.

By: /s/ Robert A. Brannon

Name: Robert A. Brannon
Title: Senior Vice-President

Acknowledged and Agreed:

MORGAN STANLEY SENIOR FUNDING, INC. as Syndication Agent and as Arranger

By: /s/ Michael T. McLaughlin

MORGAN STANLEY SENIOR FUNDING INC., Individually, as Syndication Agent and as Arranger

By: /s/ Michael T. McLaughlin

Name: Michael T. McLaughlin
Title: Principal

THE INDUSTRIAL BANK OF JAPAN, LIMITED, Individually and as Administrative Agent

By: /s/ Takuya Honjo

Name: Takuya Honjo
Title: Senior Vice President

KZH STERLING LLC

By: /s/ Virginia Conway

Name: Virginia Conway
Title: Authorized Agent

FRANKLIN FLOATING RATE TRUST

By: /s/ Chauncey Lufkin

Name: Chauncey Lufkin
Title:

PILGRIM PRIME RATE TRUST

By: /s/ Jeffrey A. Bakalar

Name: Jeffrey A. Bakalar
Title: Vice President

ARCHIMEDES FUNDING II, LTD.

By: ING CAPITAL ADVISORS, INC., as
Collateral Managers

By: /s/ Michael J. Campbell

Name: Michael J. Campbell
Title: Senior Vice President
& Portfolio Manager

KZH ING-3 LLC

By: /s/ Virginia Conway

Name: Virginia Conway
Title: Authorized Agent

KZH ING-1 LLC

By: /s/ Virginia Conway

Name: Virginia Conway
Title: Authorized Agent

ANNEX I

ANNEX FOR TRANCHE C SUPPLEMENT

ANNEX I

1. Name and Date of Credit Agreement:

Credit Agreement, dated as of September 26, 1997 and amended and restated as of March 10, 1998, among Extended Stay America, Inc., the lenders from time to time party thereto, Morgan Stanley Senior Funding, Inc., as Syndication Agent and as Arranger, and The Industrial Bank of Japan, Limited, as Administrative Agent, including any amendments, modifications, extensions, renewals, replacements, restatements or supplements thereto.

2. Supplement Effective Date:

December 15, 1998 (the "Supplement Effective Date")

3. Amounts (as of date of item #2 above):

Bank	Commitment Under Relevant Tranche C Term Loan Sub-Facility
Archimedes Funding II, Ltd.	$ 8,000,000
KZH ING-3 LLC	$ 2,000,000
KZH ING-1 LLC	$ 5,000,000
The Industrial Bank of Japan, Ltd.	$ 11,000,000
KZH Sterling, LLC	$ 5,000,000
Franklin Floating Rate Trust	$ 10,000,000
Pilgrim Prime Rate Trust	$ 5,000,000
Morgan Stanley Senior Funding, Inc.	$ 54,000,000
Total Commitment	$100,000,000
	============

4. Maturity Date for Relevant Tranche C Term Loan Sub-Facility:

December 31, 2004 (the "C Maturity Date")

5. Scheduled Amortizations:

In addition to any other mandatory repayments or commitment reductions pursuant to Section 4.02 of the Credit Agreement, the Borrower shall be required to repay on each date set forth below the principal amount of the Tranche C Term Loans, to the extent outstanding, set forth opposite such date (each such repayment as the same may be reduced as provided in Section 4.01 and 4.02(h) and (i), a "Tranche C Term Loan Scheduled Repayment"):

Tranche C Scheduled Repayment Date	Amount
Each December 31 commencing December 31, 2000 and ended December 31, 2003	An amount equal to 1% of the aggregate principal amount of Tranche C Term Loans outstanding on the last date of the Tranche C Drawing Period (as defined below)
Each March 21, 2004, June 30, 2004, September 30, 2004 and the C Maturity Date	An amount equal to 24% of the aggregate principal amount of Tranche C Term Loans outstanding on the last day of the Tranche C Drawing Period

6. Applicable C Margin:

For Base Rate Loans: 2.50%;
For Eurodollar Loans: 3.50%.

7. Commitment Commission: The Borrower agrees to pay to the Administrative Agent for distribution to each Tranche C Bank with a Tranche C Term Loan Commitment a commitment commission (the "Tranche C Term Loan Commitment Commission") for the period from the Supplement Effective Date to but not including the last day of the Tranche C Drawing Period computed at a rate per annum for each day equal to3/4of 1% on the Tranche C Term Loan Commitment of such Tranche C Bank on such day. Accrued Tranche C Term Loan Commitment Commission shall be due and payable quarterly in arrears on each Quarterly Payment Date and on the last day of the Tranche C Drawing Period or such earlier date upon which the Total Tranche C Term Loan Commitment is terminated.

8. Facility Fee; Other Fees: The Borrower shall pay to the Agents such other fees as have been separately agreed to in writing by the Borrower with the Agents with respect to the Tranche C Term Loan Commitment.

9. Additional Conditions Precedent to the Supplement Effective Date. Except as otherwise set forth below, the occurrence of the Supplement Effective Date is subject at the time of occurrence to the satisfaction

of the following conditions:

9.01 Execution of Agreement; Notes. (i) On or prior to the Supplement Effective Date (i) this Agreement shall have been executed and delivered as provided in paragraph 4, (ii) an Acknowledgment and Agreement in the form of Annex II to this Supplement shall be executed and delivered to the Administrative Agent by each

Subsidiary Guarantor and (iii) there shall have been delivered to the Administrative Agent for the account of each of the Tranche C Banks the appropriate Tranche C Term Note executed by the Borrower, in each case in the amount, maturity and as otherwise provided herein.

9.02 Fees, etc. On or prior to the Supplement Effective Date, the Borrower shall have paid to the Agents and the Banks all reasonable costs, fees and expenses (including, without limitation, reasonable legal fees and expenses) payable to the respective Agents and the Banks to the extent then due.

9.03 Opinion of Counsel. (a) On the Supplement Effective Date, the Administrative Agent shall have received from Bell, Boyd & Lloyd, counsel to the Borrower and the Subsidiary Guarantors, an opinion addressed to each of the Agents and each of the Banks and dated the Supplement Effective Date covering the matters set forth in Annex III to this Supplement and such other matters incident to the transactions contemplated herein as either Agent may reasonably request.

(b) To the extent that any condition precedent required to be satisfied under 9.03 (a) above is not satisfied on the Supplement Effective Date, the satisfaction of such shall be solely a condition precedent to the incurrence of the Tranche C Term Loans on the initial Borrowing date.

9.04 Corporate Documents; Proceedings; etc. (a) On the Supplement Effective Date, the Administrative Agent shall have received a certificate, dated the Supplement Effective Date, signed by the chairman of the board, the president, any vice president or the treasurer of the Borrower and each Subsidiary of the Borrower, if any, which is to become a Credit Party on the Supplement Effective Date, and attested to by the secretary or any assistant secretary of the respective such Person, in the form of Exhibit F to the Credit Agreement with appropriate insertions, together with copies of the certificate of incorporation and by-laws of the respective such Person, and the resolutions of the respective such Person referred to in such certificate, and the foregoing shall be reasonably acceptable to the Agents.

(b) On the Supplement Effective Date, the Administrative Agent shall have received certificates of all Credit Parties (other than the Credit Parties delivering certificates pursuant to preceding clause (a)) (x) certifying that there were no changes, or providing the text of any changes, to the certificate of incorporation and by-laws of such Credit Parties as delivered pursuant to Section 5.04 of the Credit Agreement, (y) to the effect that each such Credit Party is in good standing in its respective state of incorporation and in those states where each such Credit Party conducts business and (z) providing the resolutions adopted by each such Credit Party with respect to the actions contemplated in this Agreement (including, without limitation, with respect to the amendment and restatement of this Agreement, and the obligations of such Credit Party with respect to the increased extensions of credit pursuant hereto), and the foregoing shall be reasonably acceptable to the Agents in their reasonable discretion.

(c) On or prior to the Supplement Effective Date, all corporate, and legal proceedings and all instruments and agreements in connection with the transactions contemplated by this Agreement and the other Credit Documents shall be reasonably satisfactory in form and substance to the Agents and the Banks, and the Agents shall have received all information and copies of all documents and papers, including records of corporate and partnership proceedings, governmental approvals, good standing certificates and bring-down telegrams, if any, which any Agent may have reasonably requested in connection therewith, such documents and papers where appropriate to be certified by proper corporate, or governmental authorities.

(d) To the extent that any condition precedent required to be satisfied under 9.04 (a), (b), or (c) above is not satisfied on the Supplement Effective Date, the satisfaction of such shall be solely a condition precedent to the incurrence of the Tranche C Term Loans on the initial Borrowing date.

9.05 Adverse Change, etc. (a) On the Supplement Effective Date, nothing shall have occurred (and the Banks shall have become aware of no facts, conditions or other information not previously known) which any Agent or the Banks believe would reasonably be expected to have a material adverse effect (i) on the rights or remedies of the Agents or the Banks, or on the ability of any Credit Party to perform its respective obligations to the Agents and the Banks or (ii) on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole.

(b) On or prior to the Supplement Effective Date, all necessary governmental (domestic and foreign) and third party approvals and/or consents (if any) in connection with the making of the Tranche C Term Loans and the transactions contemplated by the Credit Documents and otherwise referred to herein or therein shall have been obtained and remain in effect, and all applicable waiting periods shall have expired without any action being taken by any competent authority which restrains, prevents or imposes materially adverse conditions upon the making of the Tranche C Term Loans and the transactions contemplated by the Credit Documents or otherwise referred to herein or therein. Additionally, there shall not exist any judgment, order, injunction or other restraint issued or filed or a hearing seeking injunctive relief or other restraint pending or notified prohibiting or imposing materially adverse conditions upon the making of the Tranche C Term Loans or the transactions contemplated by the Credit Documents.

(c) On or prior to the Supplement Effective Date, (i) no Default or Event of Default exists and (ii) all representations and warranties contained in the Credit Agreement and other Credit Documents shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on the Supplement Effective Date.

9.06 Litigation. On the Supplement Effective Date, no litigation by any entity (private or governmental) shall be pending or, to the best of the Borrower's knowledge,

threatened with respect to the making of the Tranche C Term Loans or any Loans under the Credit Agreement or the Credit Documents or any documentation executed in connection therewith or the transactions contemplated thereby.

9.07 Conditions under Section 1.14. On the Supplement Effective Date, all conditions to the establishment of the Tranche C Term Loan Facility specified under Section 1.14 of the Credit Agreement shall have been satisfied.

10. Additional Conditions Precedent to the Incurrence of Tranche C Term Loans: In addition to the conditions set forth in Section 6 of the Credit Agreement, the obligation of each Tranche C Bank to make Tranche C Term Loans is subject at the time of the making of such Tranche C Term Loans to the satisfaction of the following conditions:

(a) Tranche C Term Loans may be borrowed from time to time after the later of (x) January 1, 1999 and (y) the Supplement Effective Date until April 15, 1999 (such period being herein referred to as "Tranche C Drawing Period"), provided that the Tranche C Term Loans may not be borrowed on more than two dates; and

(b) The initial aggregate principal amount of the Tranche C Term Loans shall not exceed the Maximum Tranche C Permitted Amount.

11. Notice and Information:

MORGAN STANLEY SENIOR FUNDING, INC.

1585 Broadway
New York, NY 10036
Attention: Mike McLaughlin
Telephone: 212-761-2838
Telecopier: 212-761-0322

ARCHIMEDES FUNDING II, LTD.

333 South Grand Avenue
Suite 4250
Los Angeles, CA 90071
Attention: Mike Campbell
Telephone: 213-346-3971
Telecopier: 213-346-3995

KZH ING-1 LLC

c/o The Chase Manhattan Bank
450 West 33rd Street - 15th Floor
New York, NY 10001
Attention: Virginia Conway
Telephone: 212-946-7575
Telecopier: 212-946-7776

KZH ING-3 LLC

c/o The Chase Manhattan Bank
450 West 33rd Street - 15th Floor
New York, NY 10001
Attention: Virginia Conway
Telephone: 212-946-7575
Telecopier: 212-946-7776

THE INDUSTRIAL BANK OF JAPAN, LTD.

1251 Avenue of the Americas
New York, NY 10020-1104

Attention: Chris Droussiotis
Telephone: 212-282-3323
Telecopier: 212-282-4490

KZH STERLING LLC

c/o The Chase Manhattan Bank
450 West 33rd Street - 15th Floor
New York, NY 10001
Attention: Virginia Conway
Telephone: 212-946-7575
Telecopier: 212-946-7776

FRANKLIN FLOATING RATE TRUST

777 Mariners Island Blvd.
San Mateo, CA 94404
Attention: Chauncey Lufkin
Telephone: 650-525-7424
Telecopier: 650-312-3346

PILGRIM PRIME RATE TRUST

Two Renaisance Square
40 N. Central Ave., Suite 1200
Phoenix, AZ 85004-4424
Attention: Jeff Bakalar
Telephone: 602-417-8259
Telecopier: 602-417-8327

EXHIBIT 10.11(b)

STATE OF SOUTH CAROLINA)
) LEASE AGREEMENT
COUNTY OF SPARTANBURG)

This Lease Agreement, made and entered into as of the 30th day of November, 1998, by and between Bell Hill, LLC, a Limited Liability Company, of Spartanburg County, South Carolina (hereinafter call the "Landlord") and ESA Management, Inc., (hereinafter called the "Tenant").

W I T N E S S E T H :

1. LEASED SPACE. The Landlord hereby leases unto the Tenant, and the Tenant hereby leases from the Landlord, upon terms and conditions hereinafter set forth, that Class A office space (the "Leased Space") being Suites 6 and 7 of Building II of Landlord's Office building complex named "Bell Hill" (hereinafter called the "Building") containing approximately 4,120 square feet, located at 905 East Main Street in Spartanburg, South Carolina and non-exclusive access to the Leased Space by way of the parking lot and roadways ("designated "Common Areas"). A floor plan and the approximate location of the Leased Space is shown on Exhibit A attached hereto.

2. ACCEPTANCE OF LEASED SPACE. Landlord has made no representation or promises with respect to the Building, the leased space or this Agreement (hereinafter the "Lease") except as set forth herein.

3. TERM. This lease shall commence upon the execution hereof and shall continue in force for a term of three (3) years ending December 31, 2001.

4. COMMENCEMENT. This Lease shall commence on the date of execution. Rent shall commence the later of: (i) upon completion of the Improvements or (ii) occupancy (not later than January 1, 1999) noted on Exhibit B ("Rent Commencement").

5. SURRENDER OF THE DEMISED PREMISES. The Tenant shall keep the Leased Space in good order and repair, except the portions thereof to be repaired by the Landlord as provided herein, and upon the expiration of or other termination of this Lease, quit and surrender the Leased Space to the Landlord in the same condition as at the commencement of the term, except as modified by any improvement or modified with the Landlord's consent, natural wear and tear only excepted and with carpets shampooed.

6. RENT. The Tenant shall pay the Landlord, at the Landlord's office or at such other place as the Landlord may from time to time designate in writing:

Gross Rental Amount

Months 1-36:	$4,635.00 per month - $55,620 per year
Months 37-72:	$4,978.33 per month - $59,740 per year

The Rental Amount shall be paid in twelve (12) monthly installments, which installments shall be due and payable on the 1st day of each month in advance and without demand. Said monthly installments shall commence upon the Rent Commencement Date. If the first day upon which rent becomes payable is other than the first day of any calendar month, the rent for the balance of said month shall be payable by Tenant at a daily rate based upon the monthly rent. Regardless of this date on which the obligation to pay rent commences, if for any reason the Landlord is unable to give Tenant possession of the premises, then the rent shall abate until occupancy is available to Tenant.

7. OPERATING EXPENSE ADJUSTMENT. Intentionally deleted.

8. LANDLORD'S SERVICES. Landlord shall, at its expense, furnish the Office Space with (i) electricity for routine lighting and the operation of general office machines such as typewriters, dictating equipment, desk model adding machines and the like, which use 110 volt electric power, (ii) heat and air conditioning during reasonable and usual business hours (exclusive of Saturday, Sundays and holidays) reasonably required for the occupation of the Office Space, such heat and air conditioning to be provided by utilizing the existing systems in the Building, it being expressly understood and agreed by the parties that Landlord specifically shall not be liable for any losses or damages of any nature whatsoever incurred by Tenant due to any failure of the equipment to function properly, or while it is being repaired or due to any governmental laws, regulations or restrictions pertaining to the furnishing or use of such heat and air conditioning, (Tenant shall take all reasonable steps to minimize utility consumption by cutting off lights when Office Space is not in use and operate HVAC system at reasonable temperatures (70 degrees winter/75 degrees in summer). (iii) lighting replacement for Building standard lights, (iv) toilet room supplies, (v) daily janitor service as is customarily furnished in first class office buildings in Spartanburg, South Carolina, (vi) water, (vii) sewage. (viii) and maintain the exterior grounds and parking lot in a neat and orderly condition. Landlord shall not be liable for any damages directly or indirectly resulting from, nor shall any Rental herein set forth be abated by reason of (1) installation, use, or interruption of use, or any equipment in connection with the furnishing of any of the foregoing services, or (2) failure to furnish, or delay in furnishing, any such services when such failure or delay is caused by accident or any condition beyond the reasonable control of Landlord by the making of necessary repairs or improvements to the Office Space or to the Building. The temporary failure to furnish any such services shall not be construed as an eviction of Tenant or relieve Tenant from the duty of observing and performing any of the provisions of this Lease.

9. CONSTRUCTION OF PREMISES. Landlord shall undertake at its expense those improvements noted on Exhibit B ("The Improvements").

10. TENANT IMPROVEMENTS AND ALTERATIONS. The Tenant shall have the right, initially and from time to time, to make improvements or alterations to the Leased Space, subject to the following conditions:

A. No improvement or alteration shall at any time be made which shall impair the structural soundness or diminish the value of the Building.

B. No improvement or alteration requiring an inspection or approval by any municipal or other governmental authority having jurisdiction over such improvements or alterations shall be made at any time without first obtaining the Landlord's written approval therefore, but such approval shall not be unreasonably withheld by the Landlord. No structural improvement or alteration involving an expenditure in excess of $1,000.00 shall be made without first obtaining the Landlord's written approval of the plans therefor, but such approval shall not be unreasonably withheld by the Landlord. The Tenant shall furthermore first obtain the Landlord's written approval before any modification or changes are made in such plans after Landlord's approval thereof.

C. No improvement or alteration shall be undertaken until the Tenant shall have procured and paid for all required municipal and other governmental permits and authorizations of the various municipal departments and governmental subdivisions having jurisdiction.

D. All work done in connection with any improvements or alterations shall be done in good and workmanlike manner and in compliance with all building and zoning laws, and with all other laws, ordinances, rules, requirements of any federal, state or municipal government or agency having jurisdiction and shall be completed free of all mechanics or materialman's liens.

E. Any improvement or alteration to the Leased Space, except moveable furniture and trade fixtures placed by Tenant in the Leased Space, shall at once become the absolute property of the Landlord and shall remain upon and be surrendered with the Leased Space as part thereof at the termination of this Lease without disturbance or injury.

11. REPAIRS AND MAINTENANCE. Landlord will, at its own cost and expenses, except as may be provided elsewhere herein, make necessary repairs of damage to the Leased Space, Common Areas, including restrooms, structural members of the Building, the parking lot, the landscape areas and equipment used to provide the services referred to in Section 8, unless any such damage is caused by acts or omissions of Tenant, is agents, customers, employees, or invitees, in which event Tenant will bear the cost of such repairs. Tenant will not injure the Leased Space or the Building, but will maintain the Leased Space in a clean, attractive condition and in good repair, except as to damage to be repaired by Landlord as provided above. Upon termination of this Lease, Tenant will surrender and deliver up the Leased Space to Landlord in the same condition in which it existed at the commencement of the Lease with all carpets shampooed,

excepting only ordinary wear and tear and damage arising from any cause not required to be repaired by Tenant. This Section 11 shall not apply in the case of damage or destruction by fire or other casualty which is covered by insurance maintained by Landlord on the Building (as to which Section 20 shall apply) or damage resulting from an eminent domain taking (as to which Section 19 hereof shall apply).

12. LOSS OR DAMAGE AND INSURANCE. The Landlord shall not be liable for any damage to property in the Leased Space or on the Premises caused by gas, smoke, steam, electricity, ice, rain or snow which may leak from any part of the Building, or from pipes, appliances or plumbing works. Landlord shall not be liable for any damage or injury to person or property sustained by Tenant or others due to the happening of any accident on the Premises,

or due to any negligence of any tenant or occupant of the Building, or any other person, other than Landlord or its agents.

The Tenant agrees to indemnify and hold Landlord harmless from all claims for personal injuries, death and property damage which occur as a result of the operation of Tenant's office on the premises, or which result from any work done on the premises by Tenant or any contractor selected by or for Tenant.

Tenant shall carry a minimum of $1,000,000.00 liability insurance policy covering Tenant's business operations on the premises and Landlord shall be named as an additional insured thereunder. Tenant shall also carry insurance for the full insurable value of Tenant's trade fixtures, furnishings and all other items of personal property of Tenant located on or within the Leased Space.

All such insurance shall be obtained from a company with at least a Best "A" rating, and a certificate evidencing the issuance of such policy or policies, together with evidence of the payment of premiums, shall be delivered to Landlord before the commencement of the term of this lease, or before any use, occupancy or possession of the Leased Space prior to the commencement of the term of this Lease, whichever is sooner.

Not less than thirty days prior to the expiration of any such policy or policies, evidenced of the renewal of such policy or policies, or a new certificate, together with evidence of the payment of premiums for the renewal period or new policy, as the case may be, shall be delivered to Landlord. All such insurance shall contain an agreement by the insurance company that the policy or policies will not be canceled, or the coverage changed, without thirty day's prior written notice to Landlord.

The Landlord shall keep the Building insured against loss or damage by fire with extended coverage endorsement in an amount sufficient to prevent the Landlord from becoming a co-insurer under the terms of the applicable policies but, in any event, in an amount not less than 80% of the full insurable value as determined from time to time. The term "full insurable value" shall mean actual replacement cost (exclusive of the cost of excavation, foundation, and footings) without deduction for physical depreciation. Such insurance shall be issued by financially responsible insurers duly authorized to do business in this state.

13. USE OF LEASED SPACE. The Lease Space shall be used and occupied by the Tenant as office space. Tenant shall not use the facilities as a retail establishment in contravention of applicable zoning requirements of the City of Spartanburg and/or any restrictive covenants prohibiting such use. The Tenant shall not use the Leased Space in any manner which will increase the premium rate for any kind of insurance affecting the Building, and if, because of anything done or caused to be done, permitted or omitted by the Tenant, the premium rate for any kind of insurance affecting the Building shall be raised, then in such event, the amount of the increase in premium which the Landlord shall be thereby obligated to pay for insurance shall be paid by the Tenant to the Landlord on demand.

14. ENJOYMENT OF LEASED SPACE. The Tenant, on paying the Rent and keeping and performing the agreements and covenants herein contained, shall have the peaceful and quiet enjoyment of the Leased Space for the term hereof subject, however, to the terms of this Lease.

15. ASSIGNMENT AND SUBLETTING. Lessee shall not, without the prior written consent of Lessor endorsed hereon, assign this lease, or sublet the premises, or permit the use of the premises or any part thereof by any party other than the Lessee. Such consent shall not be unreasonably denied. Consent to any assignment or sublet shall not destroy this provision, and all later assignments or subleases shall not destroy this provision, and all later assignments or subleases shall be made likewise only on the prior written consent of the Lessor, which consent shall not be unreasonably withheld. No assignment or sublease by the Lessee shall relieve the Lessee of liability hereunder.

16. REMOVAL OF PERSONAL PROPERTY. The Tenant may remove all personal property and those items specified in Paragraph 10(e) which it has placed in the Leased Space, provided it repairs all damage to the premises caused by such removal. If the Tenant shall fail to remove all such property from the premises upon the termination of this Lease for any cause whatsoever, the Landlord may, at its option, remove the same in any manner the Landlord shall choose and store it without liability to the Tenant for loss. In such event, the Tenant shall pay to Landlord on demand any and all expenses incurred in such removal, including court costs, attorney's fees, and storage charges for the length of time the same shall be in the Landlord's possession. Alternatively, the Landlord may, at its option, without notice, and without legal process, sell the property or any part thereof at a private sale for such price as the Landlord may obtain, and apply the proceeds of the sale to any amounts due under this Lease and the expenses incident to removal and sale of said property.

17. PERSONAL PROPERTY RISK. All personal property brought onto the premises by the Tenant shall be at the risk of the Tenant only, and the Landlord

shall not be liable for theft thereof or damage thereto occasioned by an act of any tenant, or other occupant of the Building, or any other person.

18. GOVERNMENTAL REGULATIONS. The Tenant shall, at its own expense, promptly comply with all requirements of any legally constituted public authority necessitated by reason of the Tenant's occupancy of the Leased Space.

19. CONDEMNATION. If the whole or any part of the Leased Space shall be taken by any public authority under the power of eminent domain, such that the contained occupation and use of the premises is unreasonably infringed, then the terms of this Lease shall cease as to the part taken on the date possession of that part is surrendered and any unearned rent paid or credited in advance shall be refunded. The Tenant shall not be entitled to receive any part of any award or awards that may be made or received by the Landlord. The Tenant may at its own expense commence independent proceedings against the public authority exercising the power of eminent domain to prove and establish any other damage it may have incurred.

20. CASUALTY. If any of the Leased Space or the building is damaged or destroyed by fire or other casualty insured under the standard fire insurance policy with approved standard extended coverage endorsement applicable to the Leased Space and Building, the Landlord shall except as otherwise provided herein (but only to the extent the holder of the mortgage lien on the building permits release of insurance proceeds), repair and rebuild such damage which requires the Tenant temporarily to close its office therein, the rental fee shall be abated for so long as the Tenant's office is reasonably closed. If such repairs interfere with the use of the Lease Space, but do not necessitate the actual closing thereof, the rental fee shall be equitably apportioned, for so long as such repairs so interfere, in proportion to the extent to which there is an actual interference with the Tenant's use of the Leased Space.

Notwithstanding the foregoing provisions, in the event the premises shall be damaged by fire or other insured casualty due to the fault or neglect of the Tenant, or the Tenant's servants, employees, contractors, agents, visitors or licensees, then without prejudice to any other rights and remedies of the Landlord, and provided the damage is repaired by the Landlord, there shall be no apportionment or abatement of any rent.

If the Building is damaged or destroyed due to an event which is not covered by insurance and Landlord determines not to repair or rebuild, or if so covered, the Landlord determines not to repair or to rebuild, and such damage or destruction renders the Leased Space unfit for use as office space, this Lease will terminate and neither Landlord nor Tenant will have any further obligations hereunder. Except to the extent provided for in this paragraph, neither the rent payable by the Tenant nor any of the Tenant's other obligations under any provision of this Lease shall be affected by any damage to or destruction of any part of the Premises by any cause whatsoever, and the Tenant hereby expressly waives any and all additional rights it might otherwise have under any law or statue.

Tenant acknowledges that if, as a result of any casualty, whether insured against or not, whether Landlord rebuilds or not, Tenant is forced to rent temporary and/or permanent office space in another location, all expenses of the relocation including but not limited to moving expenses, rental fees, and security deposits shall be solely the Tenant's responsibility.

21. INSPECTION. The Landlord shall have the right to enter and grant licenses to others to enter the Lease Space at any reasonable time during all reasonable hours to examine the same or to make such repairs, additions, or alterations as may be deemed necessary for the safety, comfort, or preservation thereof, or of the Building and for the purpose of removing placards, signs, fixtures, alterations, or additions which do not conform to the terms of this Lease or to the rules and regulations of the Building and to exhibit the Leased Space to prospective tenants or purchasers; provided, however Landlord warrants that such activities will not be carried on at such times and in such manner as to interfere unnecessarily with Tenant's enjoyment and use of the Leased Space.

22. MORTGAGES SUBORDINATION AND NON-DISTURBANCE. This Lease is and shall remain subject and subordinate to all present or future mortgages affecting the premises and the Tenant shall promptly execute and deliver to the Landlord such documents as the Landlord may request, showing the subordination of this Lease to such mortgages, and in default of the Tenant's doing so, the Landlord shall be and hereby is authorized and empowered to

execute such documents in the name and as the act and deed of the Tenant. This authority is coupled with an interest and is irrevocable.

Further, Landlord shall require from any mortgage holder an agreement that the rights of Tenant under the Lease shall continue notwithstanding a default of Landlord. The Landlord represents that any mortgagee has or will covenant that in the event any mortgagee takes possession of the premises, it will accept the Tenant as its Tenant for a period equal to the full unlapsed portion of the term of this Lease; provided, however, the mortgagee may refuse to accept the Tenant if default has occurred under the terms of this Lease.

23. SIGNS. Intentionally Deleted - see paragraph 37 below.

24. WINDOWS. All window treatments visible from the exterior of the Building will conform to the specifications established by the Landlord or its architect. Said specifications will be supplied to the Tenant by the Landlord upon request.

25. NOTICES. Any written notice required or allowed by this lease to be given to either the Landlord or the Tenant shall be deemed given upon receipt by certified or registered mail, postage prepaid, properly addressed to the parties as follows:

Tenant: ESA Management, Inc.
c/o Extended Stay America, Inc.
450 East Las Olas Blvd., Suite 1100

Ft. Lauderdale, FL 33301
Attn: Development Counsel

Landlord: Bell Hill, LLC
c/o Johnson Development Associates, Inc.
P.O. Box 3524
Spartanburg, SC 29304

26. RULES AND REGULATIONS. The Landlord has made, or from time to time may make, reasonable rules and regulations for the government of the Building and Office Complex. These rules and regulations are, or shall be a part of this lease and binding upon the Tenant to the same extent as if set out herein and copies thereof shall be delivered to the Tenant.

27. ESTOPPEL CERTIFICATES. Tenant agrees to provide Landlord within five days of a written request therefor a certificate in form and substance satisfactory to Landlord stating (i) that this lease is in full force and effect; (ii) the commencement date and term of this lease; (iii) the date through which rent has been paid; (iv) that there are not defaults existing under this Lease, or, if any default exists, specifying such default and the actions required to remedy such default; and (v) such other matters as Landlord may reasonably require.

28. OTHER DEFAULTS. In the event (i) the Tenant defaults in the payment of rent for a period of ten days after the first day of each month, (ii) the Leased Space shall be vacated (except pursuant to a permitted assignment or sublease under paragraph 15; (iii) the Tenant shall fail to comply with any material term of the Lease (other than payment of rent) or any of the rules and regulations now or hereafter established for the government of the Building; (iv) the filing of any proceeding, whether voluntary or involuntary, in bankruptcy seeking reorganization or relief under the Bankruptcy Code or other insolvency law or regulations; (v) the Tenant becomes insolvent or makes a transfer in fraud of creditors; or (vi) the Tenant makes an assignment for the benefit of creditors; the Landlord may (i) terminate this Lease by giving written notice to Tenant; (ii) take possession of and enter the Leased Space as agent of the Tenant and relet them for such rent as is obtainable by reasonable effort and collect from the Tenant the deficiency plus all actual, reasonable costs or reletting, including, but not limited to, lease commissions, attorney's fees and upfitting costs which Landlord deems necessary for a new tenant; and (iii) pursue any other remedies which may be provided by law. Provided, however, that should any event or condition described in items (ii) - (iii) of this Paragraph 28 occur, such event or condition shall not constitute a default should such event or condition be cured to the satisfaction of Landlord within thirty (30) days from the occurrence of such event or condition, or a reasonable period of time in addition thereto if circumstances are such that the default cannot be reasonably cured within thirty (30) days and the defaulting Tenant promptly takes action to cure such default and pursues such action with due diligence.

29. COVENANTS AGAINST LIENS. Tenant expressly covenants and agrees that it will, during the term hereof, promptly remove or release, by the posting of a bond or otherwise, as required or permitted by law, any lien attached to or upon said premises or any Tenant, and hereby expressly agrees to save and hold harmless the Landlord from or against any such lien or claim of lien. In the event any such lien does attach, or any claim of lien is made against said leased premises, which may be occasioned by any act or omission upon the part of Tenant, and shall not be thus released within 30 days after notice thereof, Landlord, in its sole discretion (but nothing herein contained shall be construed as requiring it so to do), may pay and discharge the lien and release the leased premises from any lien, and Tenant agrees to pay and reimburse Landlord upon demand for or on account of any expense which may be incurred by Landlord in discharging such lien or claim, which sum shall include interest at the legal rate, from the date such lien is paid by Landlord until the date Landlord is reimbursed by Tenant; provided, however, that if Tenant has reasonable cause to contest the validity or correctness of any such lien, it may do so and in such event no breach of this Lease shall result.

30. ENTRY FOR CARDING, ETC. Landlord may card premises "For Sale" at any time and "For Rent" one-hundred twenty (120) days before the termination of this Lease.

31. FORCE MAJEURE. In the event either Landlord or Tenant shall be delayed, hindered, or prevented from the performance of any requirement hereunder, by reason of governmental restrictions, scarcity of labor or materials, strikes, or any other reasons beyond its control, the performance of such act shall be excused for the period of delay and the period for the performance of such act shall be extended for the period necessary to complete performance after the end of the period of such delay.

32. ATTORNEY'S FEES. If Landlord shall be made a party to any litigation commenced by or against Tenant, Tenant shall pay all costs, expenses and attorney's fees incurred by Landlord in connection with such litigation, excepting the event that such litigation shall determine that Landlord has committed a breach of this Lease and shall adjudicate that Landlord is liable therefore. In the event of any action at law or in equity between Landlord and Tenant to enforce any of the provisions and/or rights hereunder, the unsuccessful party to such

litigation covenants and agrees to pay to the successful party all costs and expenses, including reasonable attorney's fees incurred therein by such successful party, and if such successful party shall recover judgment in any such action or proceeding, such costs, expenses and attorney's fees shall be included in and as part of such judgment.

33. SALE BY LANDLORD. In the event of a sale or conveyance by Landlord of the Office Complex, the same shall operate to release Landlord from any future liability upon any of the covenants or conditions, expressed or implied, herein contained in favor of Tenant, and in such event Tenant agrees to

look solely to the responsibility of the successor in interest of Landlord in and to this Lease. This lease shall not be affected by any such sales, and Tenant agrees to attorn to the purchaser or assignee.

34. COMPLIANCE WITH ENVIRONMENTAL REGULATIONS.

a) The Tenant shall not cause or knowingly permit any hazardous wastes, hazardous substances, toxic substances, or related materials (collective "Hazardous Materials") to be used, generated, stored or disposed of on, under or about, or transported to or from the premises (collectively "Hazardous Materials Activities") except in compliance with all applicable federal, state and local laws, regulations and orders governing such Hazardous Materials or Hazardous Materials Activities, which compliance shall be at Tenant's sole expense. Additionally, Tenant shall not cause or knowingly permit any Hazardous Materials to be disposed of on, under or about the premises without the express prior written consent of the Landlord, which may be withheld for any reason and may be revoked at any time.

b) Tenant shall be responsible for all reporting or notification obligations of an owner, operator or person in control of petroleum products or Hazardous Materials under any applicable federal, state or local law, regulation, ordinance or order.

c) At the expiration of the lease, including any extensions, Tenant shall remove from the premises, at Tenant's sole expense, all Hazardous Materials located, stored or disposed of on, under or about the premises which were first brought to or used, stored or disposed of on the premises by Tenant or by Tenant's employees, agents, contractors, licenses or invitees. Tenant shall close, remove or otherwise render safe any buildings, tanks, containers, or other facilities related to the Hazardous Activities conducted or permitted on the premises in the manner required by all applicable laws, regulations, ordinances or orders. Tenant shall be solely responsible for the transportation, handling, use or reuse and disposal of such Hazardous Material after their removal from the premises.

d) Landlord shall not be liable to Tenant or to any other party for any Hazardous Material Activities conducted or permitted on, under or about the premises by Tenant or by Tenant's employees, agents, contractors, licenses or invitees. Tenant shall indemnify, defend with counsel acceptable to Landlord and hold Landlord harmless from any claims, damages, fines, penalties, losses, judgments costs and liabilities arising out of or related to any Hazardous Materials Activities conducted or knowingly permitted on, under or about the premises by Tenant or by Tenant's employees, agents, contractors, licensees or invitees, regardless of whether Landlord shall have consented to, approved of, participated in or had notice of this paragraph shall survive the expiration or termination of this lease.

35. LANDLORD'S LIEN. INTENTIONALLY DELETED.

36. SECURITY. INTENTIONALLY DELETED.

37. SIGNAGE. Tenant shall not paint or place signs upon the windows or doors of the Leased Space except with the consent of the Landlord, which consent shall not be unreasonably withheld or delayed and Tenant shall place no signs upon the outside walls or the roof of the Building. Landlord shall provide specifications for conforming signage, which signage shall be installed by Tenant at its expense. Signage shall be individual 12" in height, satin finish, 250 brass letters with clear seal applied set off the wall with spacers and stud mounted, center over premises.

38. RIGHTS AND REMEDIES. All rights and remedies of the Landlord herein shall be cumulative, and none shall be exclusive of any other, or of any rights and remedies allowed by law, and pursuit of any one of said rights or remedies does not preclude pursuit of any one or more of the other of said rights or remedies.

39. SEVERABILITY. If any term of this Lease is declared to be illegal or unenforceable, the unaffected terms shall remain in full force and effect.

40. MEMORANDUM OF LEASE. This lease shall not be recorded. At the request of either party, the Landlord and Tenant shall execute a short form or Memorandum of Lease for recording in the Office of the Register of Mesne Conveyance for Spartanburg County, South Carolina. The party requesting recordation shall pay the recording charges.

41. CONTROLLING LAWS. This Lease is entered into in South Carolina and shall be enforced and construed in accordance with the laws thereof.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed, all as of the day and year first above written.

WITNESSES:

/s/ W. Carrington Edmunds

Landlord:

BELL HILL, LLC, a Limited Liability Company

By: /s/ A. Foster Chapman

A. Foster Chapman
Its: Co-Manager

Tenant:

ESA MANAGEMENT, INC.

By: /s/ Shawn R. Ruben

Shawn R. Ruben

/s/ Bonnie H. Hudson Its: Vice President of Development

Exhibit 21.1

Extended Stay America, Inc.

Exhibit 21.1 List of Subsidiaries of the Company

Corporate Entity	State of Incorporation
ESA 0102, Inc.	Georgia
ESA 0106, Inc.	North Carolina
ESA 0121, Inc.	Tennessee
ESA 0123, Inc.	Alabama
ESA 0124, Inc.	Alabama
ESA 0125, Inc.	Tennessee
ESA 0127, Inc.	North Carolina
ESA 0153, Inc.	Illinois
ESA 0155, Inc.	Alabama
ESA 0161, Inc.	North Carolina
ESA 0163, Inc.	Tennessee
ESA 0174, Inc.	Florida
ESA 0186, Inc.	North Carolina
ESA 0201, Inc.	North Carolina
ESA 0206, Inc.	North Carolina
ESA 0231, Inc.	North Carolina
ESA 0232, Inc.	North Carolina
ESA 0280, Inc.	North Carolina
ESA 0302, Inc.	Florida
ESA 0303, Inc.	Florida
ESA 0305, Inc.	Tennessee
ESA 0311, Inc.	Colorado
ESA 0315, Inc.	Tennessee
ESA 0328, Inc.	Florida
ESA 0352, Inc.	Utah
ESA 0370, Inc.	North Carolina
ESA 0371, Inc.	North Carolina
ESA 0373, Inc.	Georgia
ESA 0381, Inc.	Florida
ESA 0382, Inc.	Georgia
ESA 0417, Inc.	North Carolina
ESA 0450, Inc.	Tennessee
ESA 0454, Inc.	New Jersey
ESA 0455, Inc.	New Jersey
ESA 0479, Inc.	New Jersey
ESA 0510, Inc.	Illinois
ESA 0525, Inc.	Illinois
ESA 0527, Inc.	Michigan
ESA 0530, Inc.	Illinois

ESA 0532, Inc.	Illinois
ESA 0541, Inc.	Illinois
ESA 0552, Inc.	Michigan
ESA 0574, Inc.	New Jersey

ESA 0600, Inc.	Michigan
ESA 0640, Inc.	Illinois
ESA 0646, Inc.	New Jersey
ESA 0660, Inc.	Illinois
ESA 0670, Inc.	Michigan
ESA 0675, Inc.	Michigan
ESA 0677, Inc.	Illinois
ESA 0680, Inc.	Michigan
ESA 0706, Inc.	Missouri
ESA 0733, Inc.	Minnesota
ESA 0734, Inc.	Minnesota
ESA 0737, Inc.	Minnesota
ESA 0745, Inc.	Minnesota
ESA 0752, Inc.	Illinois
ESA 0753, Inc.	Illinois
ESA 0780, Inc.	Michigan
ESA 0788, Inc.	Georgia
ESA 0789, Inc.	Florida
ESA 0858, Inc.	Nevada
ESA 0859, Inc.	Nevada
ESA 0860, Inc.	Nevada
ESA 0861, Inc.	Nevada
ESA 0869, Inc.	Florida
ESA 0884, Inc.	Florida
ESA 0885, Inc.	Colorado
ESA 0901, Inc.	Colorado
ESA 0990, Inc.	Georgia
ESA 0991, Inc.	Georgia
ESA 0992, Inc.	Georgia
ESA 0993, Inc.	Georgia
ESA 0994, Inc.	Colorado
ESA 0996, Inc.	Georgia
ESA 1500, Inc.	North Carolina
ESA 1501, Inc.	Georgia
ESA 1502, Inc.	Georgia
ESA 1510, Inc.	Florida
ESA 1514, Inc.	North Carolina
ESA 1546, Inc.	Florida
ESA 1550, Inc.	Georgia
ESA 1591, Inc.	North Carolina
ESA 1594, Inc.	North Carolina
ESA 1596, Inc.	North Carolina
ESA 1634, Inc.	North Carolina

ESA 2509, Inc.	New Jersey
ESA 2522, Inc.	New Jersey
ESA 3504, Inc.	Minnesota
ESA 4012, Inc.	Illinois
ESA 4013, Inc.	Michigan
ESA 4016, Inc.	Illinois

ESA 4019, Inc.	Illinois
ESA 4023, Inc.	Illinois
ESA 7502, Inc.	Colorado
ESA 7508, Inc.	Colorado
ESA 7513, Inc.	Colorado
ESA Arkansas, Inc.	Arkansas
ESA Arizona, Inc.	Arizona
ESA C1, Inc.	Delaware
ESA COL, Inc.	Colorado
ESA Connecticut, Inc.	Connecticut
ESA Florida, Inc.	Florida
ESA Georgia, Inc.	Georgia
ESA Idaho, Inc.	Idaho
ESA Illinois, Inc.	Illinois
ESA Indiana, Inc.	Indiana
ESA Iowa, Inc.	Iowa
ESA Kansas, Inc.	Kansas
ESA Kentucky, Inc.	Kentucky
ESA Louisiana, Inc.	Louisiana
ESA Maryland, Inc.	Maryland
ESA Minnesota, Inc.	Minnesota
ESA Mississippi, Inc.	Mississippi
ESA Missouri, Inc.	Missouri
ESA New Mexico, Inc.	New Mexico
ESA New York, Inc.	New York
ESA Ohio, Inc.	Ohio
ESA Oklahoma, Inc.	Oklahoma
ESA Oregon, Inc.	Oregon
ESA South Carolina, Inc.	South Carolina
ESA Tejas, Inc.	Texas
ESA Tennessee, Inc.	Tennessee
ESA Utah, Inc.	Utah
ESA Virginia, Inc.	Virginia
ESA Washington, Inc.	Washington
ESA Wisconsin, Inc.	Wisconsin
Extended Stay 0453, Inc.	Pennsylvania
Extended Stay 0463, Inc.	Pennsylvania
Extended Stay 0507, Inc.	Pennsylvania
Extended Stay 0547, Inc.	Pennsylvania
Extended Stay 2506, Inc.	Pennsylvania
Extended Stay CA, Inc.	Delaware

Extended Stay MA, Inc.	Massachusetts
Extended Stay America Redevelopment Corporation	Missouri
ESA Management, Inc.	Delaware
ESA West, Inc.	Nevada
ESA International, Inc.	Delaware
Studio Plus Hotels, Inc.	Delaware
Studio Plus Properties, Inc.	Virginia

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Extended Stay America, Inc. on Form S-3 (No. 333-100), on Form S-3 (No. 333-21625), on Form S-3 (No. 333-32345), on Form S-8 (No. 333-10255), on Form S-8 (No. 333-25639), and on Form S-8 (No. 333-43427) of our report dated January 29, 1999, on our audits of the consolidated financial statements of Extended Stay America, Inc. as of December 31, 1998 and 1997, and for the years ended December 31, 1998, 1997, and 1996, which report is included in this Annual Report on Form 10-K.

PRICEWATERHOUSECOOPERS LLP

Spartanburg, South Carolina
March 26, 1999

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