Red Lion Hotels CORP
Form 10-Q
November 05, 2009

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**
**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2009**

**or**

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

**For the transition period from __________ to __________**

**Commission File Number: 001-13957**

**Red Lion Hotels Corporation**

*(Exact name of registrant as specified in its charter)*

| **Washington** | **91-1032187** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **201 W. North River Drive, Suite 100 Spokane Washington** | **99201** |
| *(Address of principal executive offices)* | *(Zip Code)* |

Registrant s Telephone Number, Including Area Code: **(509) 459-6100**

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer o | Accelerated filer þ | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

As of November 2, 2009, there were 18,175,145 shares of the registrant s common stock outstanding.

## TABLE OF CONTENTS


| Item No. | Description | Page No. |
|---|---|---|
| | **PART I FINANCIAL INFORMATION** | |
| Item 1 | Financial Statements (unaudited): | |
| | Consolidated Balance Sheets September 30, 2009 and December 31, 2008 | 3 |
| | Consolidated Statements of Operations Three and Nine Months Ended September 30, 2009 and 2008 | 4 |
| | Consolidated Statements of Cash Flows Nine Months Ended September 30, 2009 and 2008 | 5 |
| | Condensed Notes to Consolidated Financial Statements | 6 |
| Item 2 | Management s Discussion and Analysis of Financial Condition and Results of Operations | 13 |
| Item 3 | Quantitative and Qualitative Disclosures About Market Risk | 22 |
| Item 4 | Controls and Procedures | 22 |
| | **PART II OTHER INFORMATION** | |
| Item 1 | Legal Proceedings | 23 |
| Item 1A. | Risk Factors | 23 |
| Item 2 | Unregistered Sales of Equity Securities and Use of Proceeds | 23 |
| Item 3 | Defaults Upon Senior Securities | 23 |
| Item 4 | Submission of Matters to a Vote of Security Holders | 23 |
| Item 5 | Other Information | 23 |
| Item 6 | Exhibits | 23 |
| | Signatures | 24 |

EX-31.1
EX-31.2
EX-32.1
EX-32.2

Table of Contents

## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements

**RED LION HOTELS CORPORATION**
**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**
**September 30, 2009 and December 31, 2008**

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands, except share data) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 5,050 | $ 18,222 |
| Restricted cash | 3,712 | 3,890 |
| Accounts receivable, net | 10,374 | 11,337 |
| Inventories | 1,311 | 1,375 |
| Prepaid expenses and other | 3,284 | 2,574 |
| Total current assets | 23,731 | 37,398 |
| Property and equipment, net | 298,349 | 298,496 |
| Goodwill | 28,042 | 28,042 |
| Intangible assets, net | 10,245 | 10,376 |
| Other assets, net | 7,164 | 6,460 |
| Total assets | $ 367,531 | $ 380,772 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,750 | $ 10,990 |
| Accrued payroll and related benefits | 4,064 | 4,925 |
| Accrued interest payable | 315 | 314 |
| Advance deposits | 689 | 398 |
| Other accrued expenses | 12,041 | 7,756 |
| Long-term debt, due within one year | 3,130 | 3,008 |
| Total current liabilities | 25,989 | 27,391 |
| Revolving credit facility | 22,000 | 36,000 |
| Long-term debt, due after one year | 77,964 | 80,323 |
| Deferred income | 8,828 | 8,476 |
| Deferred income taxes | 17,380 | 16,366 |
| Debentures due Red Lion Hotels Capital Trust | 30,825 | 30,825 |
| Total liabilities | 182,986 | 199,381 |
| Commitments and contingencies | | |
| **STOCKHOLDERS EQUITY** | | |
| Red Lion Hotels Corporation stockholders equity | | |

| | | |
|---|---|---|
| Preferred stock - 5,000,000 shares authorized; $0.01 par value; no shares issued or outstanding | | |
| Common stock - 50,000,000 shares authorized; $0.01 par value; 18,162,143 and 17,977,205 shares issued and outstanding | 182 | 180 |
| Additional paid-in capital, common stock | 142,184 | 141,137 |
| Retained earnings | 42,155 | 40,055 |
| Total Red Lion Hotels Corporation stockholders equity | 184,521 | 181,372 |
| Noncontrolling interest | 24 | 19 |
| Total equity | 184,545 | 181,391 |
| Total liabilities and stockholders equity | $ 367,531 | $ 380,772 |

The accompanying condensed notes are an integral part of the consolidated financial statements.

Table of Contents

**RED LION HOTELS CORPORATION**
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**
**For the Three and Nine Months Ended September 30, 2009 and 2008**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands, except per share data) | | | |
| **Revenue:** | | | | |
| Hotels | $ 45,625 | $ 53,472 | $ 117,385 | $ 135,401 |
| Franchise | 389 | 769 | 1,397 | 1,549 |
| Entertainment | 3,861 | 1,869 | 8,968 | 6,975 |
| Other | 592 | 776 | 1,986 | 2,331 |
| **Total revenues** | 50,467 | 56,886 | 129,736 | 146,256 |
| **Operating expenses:** | | | | |
| Hotels | 31,253 | 37,375 | 86,289 | 100,827 |
| Franchise | 153 | 81 | 297 | 226 |
| Entertainment | 2,987 | 1,712 | 7,375 | 6,886 |
| Other | 528 | 483 | 1,609 | 1,547 |
| Depreciation and amortization | 5,340 | 4,966 | 15,603 | 13,993 |
| Hotel facility and land lease | 1,826 | 1,850 | 5,476 | 5,496 |
| Gain on asset dispositions, net | (85) | (64) | (132) | (204) |
| Undistributed corporate expenses | 1,542 | 1,746 | 4,529 | 8,710 |
| **Total expenses** | 43,544 | 48,149 | 121,046 | 137,481 |
| **Operating income** | 6,923 | 8,737 | 8,690 | 8,775 |
| **Other income (expense):** | | | | |
| Interest expense | (2,268) | (2,321) | (6,297) | (6,955) |
| Other income, net | 189 | 420 | 537 | 1,331 |
| **Income before taxes** | 4,844 | 6,836 | 2,930 | 3,151 |
| Income tax expense | 1,631 | 2,391 | 825 | 926 |
| **Net income** | 3,213 | 4,445 | 2,105 | 2,225 |
| Net (income) loss attributable to noncontrolling interest | (5) | (10) | (5) | 2 |
| | $ 3,208 | $ 4,435 | $ 2,100 | $ 2,227 |

| | | | | |
|---|---|---|---|---|
| **Net income attributable to Red Lion Hotels Corporation** | | | | |
| | | | | |
| **Earnings per share attributable to Red Lion Hotels Corporation:** | | | | |
| Basic | $ 0.18 | $ 0.24 | $ 0.12 | $ 0.12 |
| Diluted | $ 0.18 | $ 0.24 | $ 0.12 | $ 0.12 |
| | | | | |
| Weighted average shares basic | 18,157 | 18,267 | 18,089 | 18,245 |
| Weighted average shares diluted | 18,306 | 18,551 | 18,119 | 18,508 |

The accompanying condensed notes are an integral part of the consolidated financial statements.

Table of Contents

**RED LION HOTELS CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**
**For the Nine Months Ended September 30, 2009 and 2008**

| | Nine months ended September 30, | |
|---|---|---|
| | **2009** | **2008** |
| | (In thousands) | |
| **Operating activities:** | | |
| Net income | $ 2,105 | $ 2,225 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 15,603 | 13,993 |
| Gain on disposition of property, equipment and other assets, net | (132) | (204) |
| Deferred income tax provision (benefit) | 1,014 | (71) |
| Equity in investments | 16 | (147) |
| Imputed interest expense | | 111 |
| Compensation expense related to stock and option issuance | 941 | 2,104 |
| Provision for doubtful accounts | 103 | 65 |
| Change in current assets and liabilities: | | |
| Restricted cash | 178 | 523 |
| Accounts receivable | 912 | (1,230) |
| Inventories | 64 | (12) |
| Prepaid expenses and other | (710) | 931 |
| Accounts payable | (5,265) | 4,056 |
| Accrued payroll and related benefits | (861) | (1,707) |
| Accrued interest payable | 1 | (60) |
| Deferred income | 900 | |
| Other accrued expenses and advance deposits | 4,379 | 368 |
| Net cash provided by operating activities | 19,248 | 20,945 |
| **Investing activities:** | | |
| Purchases of property and equipment | (15,106) | (43,306) |
| Non-current restricted cash for sublease tenant improvements, net | | 2,072 |
| Proceeds from disposition of property and equipment | 16 | 5 |
| Advances to Red Lion Hotels Capital Trust | (27) | (27) |
| Other, net | (1,021) | 429 |
| Net cash used in investing activities | (16,138) | (40,827) |
| **Financing activities:** | | |
| Borrowings on revolving credit facility | 5,000 | 23,000 |
| Repayment of revolving credit facility | (19,000) | (2,000) |
| Repayment of long-term debt | (2,237) | (13,234) |
| Borrowings on long-term debt | | 14,000 |
| Common stock redeemed | (11) | (926) |
| Additions to deferred financing costs | (153) | (192) |

| | | | | |
|---|---|---|---|---|
| Proceeds from issuance of common stock under employee stock purchase plan | | 119 | | 164 |
| Net cash (used in) provided by financing activities | | (16,282) | | 20,812 |
| **Change in cash and cash equivalents:** | | | | |
| Net (decrease) increase in cash and cash equivalents | | (13,172) | | 930 |
| Cash and cash equivalents at beginning of period | | 18,222 | | 15,044 |
| Cash and cash equivalents at end of period | $ | 5,050 | $ | 15,974 |
| **Supplemental disclosure of cash flow information:** | | | | |
| Cash paid during periods for: | | | | |
| Income taxes | $ | | $ | 102 |
| Interest on long-term debt | $ | 6,752 | $ | 7,227 |
| Cah received during periods for: | | | | |
| Income taxes | $ | | $ | 974 |

The accompanying condensed notes are an integral part of the consolidated financial statements.

Table of Contents

## RED LION HOTELS CORPORATION
## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization

Red Lion Hotels Corporation ( Red Lion or the Company ) is a NYSE-listed hospitality and leisure company (ticker symbols RLH and RLH-pa) primarily engaged in the ownership, operation and franchising of midscale and upscale, full service hotels under the Red Lion brand. As of September 30, 2009, the Red Lion system of hotels contained 45 hotels located in eight states and one Canadian province, with 8,671 rooms and 431,244 square feet of meeting space. As of that date, the Company operated 32 hotels, of which 19 are wholly owned and 13 are leased, and franchised 13 hotels that were owned and operated by various third-party franchisees.

In addition to hotel operations, the Company maintains a direct ownership interest in a retail mall that is attached to one of its hotels and in other miscellaneous real estate investments. The Company is also engaged in entertainment operations, which includes TicketsWest.com, Inc., and through which the Company derives revenues from event ticket distribution and promotion and presentation of a variety of entertainment productions.

The Company was incorporated in the state of Washington in April 1978, and operated hotels until 1999 under various brand names including Cavanaughs Hotels. In 1999, the Company acquired WestCoast Hotels, Inc., and rebranded its Cavanaughs hotels to the WestCoast brand changing the Company s name to WestCoast Hospitality Corporation. In 2001, the Company acquired Red Lion Hotels, Inc. In September 2005, after rebranding most of its WestCoast hotels to the Red Lion brand, the Company changed its name to Red Lion Hotels Corporation. The financial statements encompass the accounts of Red Lion Hotels Corporation and all of its consolidated subsidiaries, including its 100% ownership of Red Lion Hotels Holdings, Inc., and Red Lion Hotels Franchising, Inc., and its approximately 99% ownership of Red Lion Hotels Limited Partnership ( RLHLP ). The 1% noncontrolling interest in RLHLP has been classified as a component of equity separate from equity of Red Lion Hotels Corporation.

The financial statements also include an equity method investment in a 19.9% owned real estate venture, as well as certain cost method investments in various entities included as other assets, over which the Company does not exercise significant influence. In addition, the Company holds a 3% common interest in Red Lion Hotels Capital Trust (the Trust ) that is considered a variable interest entity. The Company is not the primary beneficiary of the Trust; thus, it is treated as an equity method investment.

All significant inter-company and inter-segment transactions and accounts have been eliminated upon consolidation. Certain amounts disclosed in prior period statements have been reclassified to conform to the current period presentation.

### 2. Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared by Red Lion pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) and in accordance with generally accepted accounting principles in the United States of America ( GAAP ). Certain information and footnote disclosures normally included in financial statements have been condensed or omitted as permitted by such rules and regulations.

The balance sheet as of December 31, 2008 has been compiled from the audited balance sheet as of such date. The Company believes the disclosures included herein are adequate; however, they should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2008, previously filed with the SEC on Form 10-K.

In the opinion of management, these unaudited consolidated financial statements contain all of the adjustments of a normal and recurring nature necessary to present fairly the consolidated financial position of the Company at September 30, 2009, the consolidated results of operations for the three and nine months ended September 30, 2009 and 2008, and the consolidated cash flows for the nine months ended September 30, 2009 and 2008. The results of operations for the periods presented may not be indicative of those which may be expected for a full year. The Company has evaluated all subsequent events through November 5, 2009, the date the consolidated financial statements were issued.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the disclosures of contingent liabilities. Actual results could materially differ from those estimates.

**3. Property and Equipment**

Property and equipment is summarized as follows (in thousands):

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Buildings and equipment | $ 302,913 | $ 281,979 |
| Furniture and fixtures | 45,997 | 39,906 |
| Landscaping and land improvements | 8,845 | 6,753 |
| | 357,755 | 328,638 |
| Less accumulated depreciation and amortization | (129,292) | (116,148) |
| | 228,463 | 212,490 |
| Land | 66,146 | 66,146 |
| Construction in progress | 3,740 | 19,860 |
| | $ 298,349 | $ 298,496 |

**4. Notes Payable to Bank**

In September 2006, the Company entered into a revolving credit facility for up to $50 million with a syndication of banks led by Calyon New York Branch. Subject to certain conditions, including the provision of additional collateral acceptable to the lenders, the size of the facility may be increased at the Company s request to up to $100 million. The initial maturity date for the facility was September 13, 2009, which the Company extended in July 2009 for an additional one year through September 13, 2010. At its choosing, the Company also has the right, subject to compliance with covenants, to extend the maturity to September 2011, which it intends to exercise. Borrowings under the facility may be used to finance acquisitions or capital expenditures, for working capital and for other general corporate purposes. The obligations under the facility are collateralized by a company owned hotel. In connection with the original transaction, the Company paid loan fees and related costs of approximately $0.9 million, which were amortized over the initial term of the facility.

Outstanding borrowings under the facility accrue interest as Eurodollar loans with rates ranging from 150 to 225 basis points over LIBOR, with an option for base rate loans based upon the federal funds rate or prime rate. The credit facility requires the Company to comply with certain customary affirmative and negative covenants, the most restrictive of which are financial covenants dealing with leverage, interest coverage and debt service coverage. At September 30, 2009 and December 31, 2008, $22.0 and $36.0 million, respectively, was outstanding under the facility and the Company was in compliance with all of its covenants. At September 30, 2009, the outstanding amount bore interest at a rate of 2.0% based on a 30-day LIBOR plus 1.75%.

In addition to the above, the Company had $13.3 million outstanding under a variable rate property note with restrictive covenants that mirror those of the credit facility. As of September 30, 2009, the note accrued interest at 2.0% based on a 30-day LIBOR plus 1.75%, and the Company was in compliance with all of its covenants.

Table of Contents

**5. Business Segments**

As of September 30, 2009 and December 31, 2008, the Company had three operating segments - hotels, franchise and entertainment. The other segment consists primarily of a retail mall and miscellaneous revenues and expenses, cash and cash equivalents, certain receivables and certain property and equipment which are not specifically associated with an operating segment. Management reviews and evaluates the operating segments exclusive of interest expense; therefore, it has not been allocated to the segments. All balances have been presented after the elimination of inter-segment and intra-segment revenues. Selected information with respect to operations is as provided below (in thousands).

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Revenues:** | | | | |
| Hotels | $45,625 | $53,472 | $117,385 | $135,401 |
| Franchise | 389 | 769 | 1,397 | 1,549 |
| Entertainment | 3,861 | 1,869 | 8,968 | 6,975 |
| Other | 592 | 776 | 1,986 | 2,331 |
| | $50,467 | $56,886 | $129,736 | $146,256 |
| **Operating income (loss):** | | | | |
| Hotels | $ 7,995 | $10,193 | $ 12,353 | $ 17,692 |
| Franchise | 154 | 536 | 842 | 911 |
| Entertainment | 777 | 19 | 1,279 | (266) |
| Other | (2,003) | (2,011) | (5,784) | (9,562) |
| | $ 6,923 | $ 8,737 | $ 8,690 | $ 8,775 |

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| **Identifiable assets:** | | |
| Hotels | $316,559 | $316,291 |
| Franchise | 16,553 | 15,983 |
| Entertainment | 6,247 | 5,530 |
| Other | 28,172 | 42,968 |
| | $367,531 | $380,772 |

Table of Contents

**6. Earnings (Loss) Per Share**

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted earnings per share computations for the three and nine months ended September 30, 2009 and 2008 (in thousands, except per share amounts):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| **Numerator basic and diluted:** | | | | |
| Net income | $ 3,213 | $ 4,445 | $ 2,105 | $ 2,225 |
| Net (income) loss attributable to noncontrolling interest | (5) | (10) | (5) | 2 |
| Net income attributable to Red Lion Hotels Corporation | $ 3,208 | $ 4,435 | $ 2,100 | $ 2,227 |
| **Denominator:** | | | | |
| Weighted average shares basic | 18,157 | 18,267 | 18,089 | 18,245 |
| Weighted average shares diluted | 18,306 | 18,551 | 18,119 | 18,508 |
| **Earnings per share attributable to Red Lion Hotels Corporation:** | | | | |
| Basic | $ 0.18 | $ 0.24 | $ 0.12 | $ 0.12 |
| Diluted | $ 0.18 | $ 0.24 | $ 0.12 | $ 0.12 |

For the three months ended September 30, 2009, 72,258 of the 1,212,771 options to purchase common shares outstanding as of that date were considered dilutive, as were 31,310 of the 250,195 restricted stock units outstanding considered dilutive during the third quarter of 2009. For the three months ended September 30, 2008, 234,658 of the 1,429,794 options to purchase common shares outstanding as of that date were considered dilutive. Of the 55,715 restricted stock units outstanding, 4,298 shares were considered dilutive during the third quarter of 2008. For both comparable periods, all of the 44,837 convertible operating partnership ( OP ) units of RLHLP were considered dilutive.

For the nine months ended September 30, 2009 and 2008, none of the 1,212,771 options to purchase common shares outstanding as of that date were considered dilutive, as the grant date stock price of all options outstanding was above the weighted average price of the Company s common stock during that period. Similarly, none of the 250,195 restricted stock units outstanding were considered dilutive. For the nine months ended September 30, 2008, 227,037 of the 1,429,794 options to purchase common shares outstanding as of that date were considered dilutive. Of the 55,715 restricted stock units outstanding, 5,805 shares were considered dilutive. For the nine months ended September 30, 2009 and 2008, 29,946 of the 44,837 OP units outstanding during both periods were considered dilutive.

**7. Change in Executive Officers**

In February 2008, the President and Chief Executive Officer of the Company, who was also a director of the Company, retired. In connection therewith, the Company entered into a written retirement agreement with the executive that included separation payments and benefits of $2.2 million in value. Under the terms of the agreement, the unvested portion of the former executive s 545,117 stock options and 12,990 restricted stock units immediately vested, resulting in expense of $1.0 million during the first quarter of 2008. In addition, under the terms of the retirement agreement, the exercise period for 414,191 of the options was extended to February 2011 or until the earlier expiration of their original 10-year term. The remaining 130,926 stock options expired in May 2008. The modification to the terms of the previously granted equity awards resulted in additional stock based compensation expense of

$0.4 million. In total, the Company recognized $3.7 million in expense during the first quarter of 2008 related to this retirement.

In October 2008, the Company terminated an employment agreement with an Executive Vice President resulting in an expense of $0.9 million for separation payments and other benefits. Of this amount, $0.6 million was paid during the second quarter of 2009. Under the terms of the agreement, the unvested portion of the former executive s 157,900 stock options and 5,549 restricted stock units immediately vested. All of the former executive s stock options expired unexercised during the first quarter of 2009.

**8. Stock Based Compensation**

The 2006 Stock Incentive Plan, approved by shareholders of the Company in 2006, authorizes the Company to grant stock options, restricted stock, restricted stock units and other equity-based awards to employees, consultants, and directors with respect to up to 1.0 million shares of the Company s common stock, subject to adjustments for stock splits, stock dividends and similar events. In May 2009, shareholders approved an amendment to the plan at the annual shareholder meeting increasing the common stock authorized for issuance from 1.0 million shares to 2.0 million, as well as limiting the number of restricted stock units that can be granted during any one year to 0.5 million. As of September 30, 2009, there were 1,155,369 shares of common stock available for issuance pursuant to future stock options grants or other awards under the 2006 plan.

Table of Contents

During the first nine months of 2009, the board of directors has granted to executive officers and other key employees 213,282 unvested restricted stock units, which will vest 25% each year for four years. In addition, non-executive directors of the Company have been granted an aggregate of 70,477 shares of common stock with a fair value of $0.3 million as part of the existing director compensation arrangement.

In the third quarter and first nine months of 2009, the Company recognized approximately $0.1 million and $0.3 million, respectively, in compensation expense related to options, compared to $0.2 million and $1.7 million, respectively, during the same periods in 2008. The 2008 nine-month period includes expense recorded in February of that year upon the retirement of the Company s former President and Chief Executive Officer, as discussed above in Note 7. As outstanding options vest, the Company expects to recognize approximately $0.8 million in additional compensation expense before the impact of income taxes over a weighted average period of 25 months, including $0.1 million during the fourth quarter of 2009.

A summary of stock option activity at September 30, 2009, is as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2008 | 1,311,155 | $ 7.61 |
| Options granted | | $ |
| Options exercised | | $ |
| Options forfeited | (98,384) | $ 10.54 |
| Balance, September 30, 2009 | 1,212,771 | $ 7.37 |
| Exercisable, September 30, 2009 | 795,966 | $ 6.75 |

Additional information regarding stock options outstanding and exercisable as of September 30, 2009, is as follows:

| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Expiration Date | Weighted Average Exercise Price | Aggregate Intrinsic Value (1) (in thousands) | Number Exercisable | Weighted Average Exercise Price | Aggregate Intrinsic Value (1) (in thousands) |
|---|---|---|---|---|---|---|---|---|
| 5.10 - 6.07 | 567,605 | 2.65 | 2011-2014 | $ 5.31 | $ 281 | 503,605 | $ 5.34 | $ 240 |
| 7.46 - 7.80 | 241,626 | 4.44 | 2009-2018 | 7.54 | | 130,782 | 7.50 | |
| 8.31 - 8.80 | 250,363 | 7.71 | 2010-2018 | 8.70 | | 82,859 | 8.61 | |
| 10.88 | 5,974 | 6.82 | 2016 | 10.88 | | 4,481 | 10.88 | |
| 12.21-15.00 | 147,203 | 7.33 | 2009-2017 | 12.63 | | 74,239 | 12.65 | |
| | 1,212,771 | 4.64 | 2009-2018 | $ 7.37 | $ 281 | 795,966 | $ 6.75 | $ 240 |

(1) The aggregate intrinsic value is before applicable

income taxes and represents the amount option recipients would have received if all options had been available to be exercised on the last trading day of the third quarter of 2009, or September 30, 2009, based upon the Company s closing stock price of $5.75.

As of September 30, 2009 and 2008, there were 250,195 and 55,715 unvested restricted stock units outstanding, respectively. The forfeiture rate of unvested restricted stock units since grant is approximately 7.9%. In the first nine months of 2009 and 2008, the Company recognized approximately $0.2 million and $0.2 million, respectively, in compensation expense related to restricted stock units. The 2008 expense reflects $0.1 million recorded upon the retirement of the Company s former President and Chief Executive Officer. As the restricted stock units vest, the Company expects to recognize approximately $1.1 million in additional compensation expense over a weighted average period of 40 months.

Effective January 1, 2008, the Company adopted the 2008 employee stock purchase plan (the 2008 ESPP ) upon the expiration of its previous plan. Under the 2008 ESPP, approved by the Company s shareholders in May 2008, a total of 300,000 shares of common stock were authorized for purchase by eligible employees at a discount through payroll deductions. No employee may purchase more than $25,000 worth of shares in any calendar year. As allowed under the 2008 ESPP, a participant may elect to withdraw from the plan, effective for the purchase period in progress at the time of the election with all accumulated payroll deductions returned to the participant at the time of withdrawal. In January and July 2009, 25,217 and 29,654 shares, respectively, were issued under the plan.

Table of Contents

**9. Fair Value of Financial Instruments**

During the second quarter of 2009, the Company adopted changes issued by the Financial Accounting Standards Board ( FASB ) to fair value disclosures of financial instruments. Under the guidance, fair value of disclosures for financial instruments is now required quarterly rather than annually. Estimated fair values of financial instruments are as indicated as follows (in thousands).

| | September 30, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents and restricted cash | $ 8,762 | $ 8,762 | $ 22,112 | $ 22,112 |
| Accounts receivable | $ 10,374 | $10,374 | $ 11,337 | $ 11,337 |
| Financial liabilities: | | | | |
| Current liabilities, excluding debt | $ 22,859 | $22,859 | $ 24,384 | $ 24,384 |
| Long-term debt | $103,094 | $97,973 | $119,331 | $115,466 |
| Debentures | $ 30,825 | $25,814 | $ 30,825 | $ 14,798 |

The carrying amounts for cash and cash equivalents, accounts receivable and current liabilities are reasonable estimates of their fair values. The fair value of long-term debt is estimated based on the discounted value of contractual cash flows using the estimated rates currently offered for debt with similar remaining maturities. The debentures are valued at the closing price on September 30, 2009, of the underlying trust preferred securities on the New York Stock Exchange, plus the face value of the debenture amount representing the trust common securities held by the Company.

The fair values provided above are not necessarily indicative of the amounts the Company or the debt holders could realize in a current market exchange. In addition, potential income tax ramifications related to the realization of gains and losses that would be incurred in an actual sale or settlement have not been taken into consideration.

**10. Hotel Sublease**

In connection with a lease amendment for the Red Lion Hotel Sacramento, the Company received deferred lease income of $0.9 million during the second quarter of 2009. The $0.9 million will be recognized over the life of the sublease agreement, which will expire in 2020.

Also as part of the amendment, the Company committed to $0.9 million in tenant improvements. As of September 30, 2009, all of this $0.9 million had been spent.

**11. Recent Accounting Pronouncements**

In June 2009, the FASB issued Accounting Standards Codification ( ASC ) 105, Generally Accepted Accounting Principles (formerly Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ). ASC 105 (or the Codification ) establishes the FASB ASC as the single source of authoritative nongovernmental U.S. GAAP. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. The Company adopted these changes on September 30, 2009, and other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on its consolidated financial statements.

***Fair Value Accounting*** - On January 1, 2009, the Company adopted changes issued by the FASB to fair value accounting and reporting as it relates to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis. These changes define fair value, establish a framework for measuring fair value in GAAP and expand disclosures about fair value measurements. The adoption

of these changes, as it relates to nonfinancial assets and nonfinancial liabilities, had no significant impact on the consolidated financial statements.

On June 30, 2009, the Company adopted changes issued by the FASB to fair value disclosures of financial instruments. These changes require a publicly traded company to include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. Such disclosures include the fair value of all financial instruments for which it is practicable to estimate that value; the related carrying amount of these financial instruments; and the method(s) and significant assumptions used to estimate the fair value. Other than the required disclosures in Note 9, the adoption of these changes did not have an impact on the Company s consolidated financial statements.

***Business Combinations*** - Effective January 1, 2009, the Company adopted changes issued by the FASB modifying how business acquisitions are accounted for occurring on or after that date are accounted for. These changes address consistent fair value measurements and apply to all assets acquired and liabilities assumed in a business combination.

***Non-controlling Interests in Consolidated Financial Statements*** - On January 1, 2009, the Company adopted changes issued by the FASB to consolidation accounting and reporting via retroactive appreciation of the presentation and disclosure requirements. These changes established accounting and reporting for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance defines a noncontrolling interest, previously called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. As required, the Company records noncontrolling interests as a component of equity separate from the parent company s equity. Net income (loss) attributable to noncontrolling interests is included on the income statement separate from net income (loss) from the Company s operations.

***Determination of the Useful Life of Intangible Assets*** - On January 1, 2009, the Company adopted changes issued by the FASB to accounting for intangible assets. The changes amend the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset in order to improve the consistency between the useful life of a recognized intangible asset outside of a business combination and the period of expected cash flows used to measure the fair value of an intangible asset in a business combination. The adoption of these changes had no impact on the Company s consolidated financial statements.

***Share-based Payment Awards*** - On January 1, 2009, the Company adopted changes issued by the FASB that addressed whether instruments granted in share-based payment awards are participating securities prior to vesting and, therefore, must be included in the earnings allocation in calculating earnings per share under the two-class method. These changes require that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend-equivalents be treated as participating securities in calculating earnings per share. These changes did not have an impact on the Company s consolidated financial statements.

***Subsequent Events*** - On June 30, 2009, the Company adopted changes issued by the FASB to accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued, otherwise known as subsequent events. Specifically, these changes require the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date financial statements were issued or were available to be issued. See Note 2 for the related disclosures. The adoption of these changes did not have an impact on the Company s consolidated financial statements.

***Accounting for Transfers of Financial Assets*** - In June 2009, the FASB issued changes that eliminate the concept of a qualifying special-purpose entity ( QSPE ); clarify and amend the derecognition criteria for a transfer to be accounted for as a sale; amend and clarify the unit of account eligible for sale accounting; and require that a transferor initially measure at fair value and recognize all assets obtained and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. Additionally, on and after the effective date, existing QSPE s must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance. These changes will require enhanced disclosures about, among other things, a transferor s continuing involvement with transfers of financial assets accounted for as sales, the risks inherent in the transferred financial assets that have been retained, and the nature and financial effect of restrictions on the transferor s assets that continue to be reported in the consolidated financial statements. These changes will be effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The Company is currently evaluating the impact these changes will have on its consolidated financial statements.

***Variable Interest Entities*** - In June 2009, the FASB issued changes to the consolidation guidance applicable to a variable interest entity ( VIE ). These changes also amend the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity s economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The new guidance also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE, where previously, reconsideration of whether an enterprise was the

primary beneficiary of a VIE was only required when specific events had occurred. QSPEs will also be subject to these changes in consolidation guidance when effective. Enhanced disclosures about an enterprise s involvement with a VIE will be required. These changes will be effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The Company is currently evaluating the impact these changes will have on its consolidated financial statements.

Table of Contents

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

*This quarterly report on Form 10-Q includes forward-looking statements. We have based these statements on our current expectations and projections about future events. When words such as anticipate, believe, estimate, expect, intend, may, plan, seek, should, will and similar expressions or their negatives are used in this quarterly repo are forward-looking statements. Many possible events or factors, including those discussed in Risk Factors under Item 1A of our annual report filed on Form 10-K for the year ended December 31, 2008, could affect our future financial results and performance, and could cause actual results or performance to differ materially from those expressed. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this quarterly report.*

*In this report, we, us, our, our company and the company refer to Red Lion Hotels Corporation and, as the c requires, all of its wholly and partially owned subsidiaries, including, but not limited to, its 100% ownership of Red Lion Hotels Holdings, Inc. and Red Lion Hotels Franchising, Inc. and its approximate 99% ownership of Red Lion Hotels Limited Partnership. Red Lion refers to the Red Lion brand. The term the system, system-wide hotels or syste of hotels refers to our entire group of owned, leased and franchised hotels.*

*The following discussion and analysis should be read in connection with our unaudited consolidated financial statements and the condensed notes thereto and other financial information included elsewhere in this quarterly report, as well as in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2008, previously filed with the SEC on Form 10-K.*

**Introduction**

We are a NYSE-listed hospitality and leisure company (ticker symbols RLH and RLH-pa) primarily engaged in the ownership, operation and franchising of midscale and upscale, full service hotels under our proprietary Red Lion brand. Established over 30 years ago, the Red Lion brand is nationally recognized and particularly well known in the western United States, where most of our hotels are located. The Red Lion brand is typically associated with three and four-star full-service hotels.

As of September 30, 2009, our hotel system contained 45 hotels located in eight states and one Canadian province, with 8,671 rooms and 431,244 square feet of meeting space as provided below:

| | Hotels | Total Available Rooms | Meeting Space (sq. ft.) |
|---|---|---|---|
| Owned and Leased Hotels | 32 | 6,243 | 309,684 |
| Franchised Hotels | 13 | 2,428 | 121,560 |
| Total Red Lion Hotels | 45 | 8,671 | 431,244 |

We operate in three reportable segments:

The **hotels segment** derives revenue primarily from guest room rentals and food and beverage operations at our owned and leased hotels.

The **franchise segment** is engaged primarily in licensing the Red Lion brand to franchisees. This segment generates revenue from franchise fees that are typically based on a percent of room revenues and are charged to hotel owners in exchange for the use of our brand and access to our central services programs. These programs include the reservation system, guest loyalty program, national and regional sales, revenue management tools, quality inspections, advertising and brand standards.

The **entertainment segment** derives revenue primarily from ticketing services and promotion and presentation of entertainment productions.

Our remaining activities, none of which constitute a reportable segment, have been aggregated into other, and are primarily related to our retail mall direct ownership interest that is attached to one of our hotels and other miscellaneous real estate investments.



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Table of Contents

### Executive Summary

Our company strategy in this difficult market is to focus on streamlining operations and maximizing the value of our existing portfolio. This will be accomplished through careful cost controls and a focus on brand consistency, which may result in a change to our asset mix. Our goal over the next several years is to maximize shareholder value and return it to shareholders.

Red Lion has created a unique guest experience by establishing an environment that allows our customers to feel at home while they are away from home. Our product and service culture is successful in both large urban and smaller markets. Our hotels strive to reflect the character of the local markets in which they operate, while maintaining a consistent experience. We believe adherence to consistent customer service standards and brand touch-points allow guests to Stay Comfortable. Red Lion hotels have always been known for providing a comfortable lodging experience complemented by genuine service. Our goal is to create the most memorable guest experience possible, through personalized, exuberant service, allowing us to be a leader in our markets. We believe that leveraging the uniqueness of our physical assets and interacting with our guests in the warm, authentic way that Red Lion has historically been known for will drive our hotels success. To achieve these goals, we will continue to focus our resources on the following primary areas:

***Infrastructure*** - We have improved the foundation of our company by focusing on our core competencies and by investing in the infrastructure we use to manage the distribution of our room inventory through online and traditional reservations channels. We seek to maximize centrally sourced reservations through our state-of-the art website and central reservations systems, enhanced revenue management strategy and sophisticated interactions with our online travel agency ( OTA ) partners. Centrally sourced reservations (i.e. voice, redlion.com, travel agent and third-party on-line travel agencies) accounted for 50.3% and 48.8% of total room revenues at owned and leased hotels during the third quarters of 2009 and 2008, respectively.

Our owned and leased hotels all utilize MICROS Opera Property Management Systems, which provides us with a single image database for managing, analyzing and reporting customer activity, greatly enhancing both our customer service levels and ability to e-market using sophisticated customer relations management tools and tactics.

***Physical Assets*** - Our assets provide us with a stable, positive cash flow operation and a strong base from which to operate the Red Lion brand. As of September 30, 2009, we owned and leased 32 hotel properties, including hotels in many key markets in the western U.S. We also continue to hold properties with strong development potential such as our Bellevue, Washington, Post Falls, Idaho, and Kalispell, Montana locations. In February 2009, we announced the completion of renovations at our newly flagged Red Lion Anaheim property in Southern California. Including $0.7 million in renovations at our Denver Southeast location, we expect to invest an additional $3.0 million throughout the remainder of 2009 to maintain the condition and presentation of our physical assets, which are key to our success. However, we may reduce our level of anticipated capital spending as appropriate to align with our needs.

***The Red Lion Way*** We want our guests to feel our commitment to their memorable experience through our associates. We are investing in our future by developing leaders throughout all levels of our organization who understand that a culture of associate satisfaction and excellent service is an integral component of our long-term success. This includes ongoing service training, leadership programs and an overall commitment to both operational excellence and guest satisfaction. Our goal is to be known in our industry for leadership excellence, superior guest satisfaction and a positive work environment, and to be profitable under all economic climates.

***Liquidity and Profitability*** - Given the current state of the hospitality and travel markets, our focus is on maintaining liquidity and profitability. This means intensifying our focused sales and marketing efforts and maximizing revenue management programs to capture market share. We will also continue to streamline operations where possible, given the current market environment.

As of September 30, 2009, in addition to $5.1 million in cash, we had an unused capacity of $28 million under our $50 million revolving credit facility. This credit facility can be increased by an additional $50 million to a maximum of $100 million, subject to satisfaction of various conditions.

RevPAR in the three months ended September 30, 2009 for our owned and leased properties declined 13.8% from the same period in 2008, with an 8.6% decrease in ADR. Occupancy at owned and leased properties declined 420 basis points quarter-over-quarter. Our franchise properties also experienced negative RevPAR growth, down 18.6% in

the third quarter of 2009 compared to the same period in 2008, with an ADR decrease of 8.4%. Average occupancy, average daily rate and revenue per available room statistics provided below include all owned, leased and franchised hotels on a comparable basis.

Table of Contents

| | For the three months ended September 30, | | | | | | For the nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | | 2009 | | | 2008 | | |
| | Average Occupancy (1) | ADR (2) | RevPAR (3) | Average Occupancy (1) | ADR (2) | RevPAR (3) | Average Occupancy (1) | ADR (2) | RevPAR (3) | Average Occupancy (1) | ADR (2) | RevPAR (3) |
| Owned and Leased Hotels | 68.6% | $85.91 | $58.94 | 72.8% | $93.95 | $68.38 | 59.5% | $85.15 | $50.69 | 64.7% | $90.49 | $58.56 |
| Franchised Hotels | 62.6% | $75.42 | $47.20 | 70.4% | $82.37 | $57.97 | 55.5% | $76.33 | $42.38 | 61.1% | $78.99 | $48.24 |
| Total Red Lion Hotels | 67.0% | $83.24 | $55.73 | 72.1% | $90.87 | $65.53 | 58.4% | $82.73 | $48.29 | 63.7% | $87.30 | $55.58 |
| Change from prior comparative period: | | | | | | | | | | | | |
| Owned and Leased Hotels | (4.2) | -8.6% | -13.8% | | | | (5.2) | -5.9% | -13.4% | | | |
| Franchised Hotels | (7.8) | -8.4% | -18.6% | | | | (5.6) | -3.4% | -12.1% | | | |
| Total Red Lion Hotels | (5.1) | -8.4% | -15.0% | | | | (5.3) | -5.2% | -13.1% | | | |

(1) Average occupancy represents total paid rooms divided by total available rooms. Total available rooms represents the number of rooms available multiplied by the number of days in the

reported period and includes rooms taken out of service for renovation.

(2) Average daily rate ( ADR ) represents total room revenues divided by the total number of paid rooms occupied by hotel guests.

(3) Revenue per available room ( RevPAR ) represents total room and related revenues divided by total available rooms.

Our goal in this current economically difficult environment is to maintain or improve profit margins through cost controls while maintaining the Red Lion culture so that our guests continue to Stay Comfortable®. We believe that we are well positioned to achieve our strategic goals; however, the current economic situation and its effects on our industry have created an uncertain operating environment for the remainder of 2009 and beyond. There can be no assurance our results of operations will be similar to our results reported in prior years if changes in travel patterns continue or economic conditions do not improve.

**Results of Operations**

During the third quarter of 2009, we reported net income attributable to Red Lion Hotels Corporation of $3.2 million (or $0.18 per share) compared to $4.4 million (or $0.24 per share) during the third quarter of 2008. For the first nine months of 2009, we reported net income attributable to Red Lion Hotels Corporation of $2.1 million (or $0.12 per share) compared to net income of $2.2 million (or $0.12 per share) during the first nine months of 2008. For the third quarter and first nine months of 2009, total revenues decreased $6.4 million and $16.5 million, respectively, compared to those same periods in 2008.

A summary of our consolidated statement of operations is provided below (in thousands, except per share data).

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| **Total revenue** | $ 50,467 | $ 56,886 | $ 129,736 | $ 146,256 |
| **Operating expenses** | 43,544 | 48,149 | 121,046 | 137,481 |
| **Operating income** | 6,923 | 8,737 | 8,690 | 8,775 |
| **Other income (expense):** | | | | |
| Interest expense | (2,268) | (2,321) | (6,297) | (6,955) |
| Other income, net | 189 | 420 | 537 | 1,331 |

| | | | | |
|---|---|---|---|---|
| **Income before taxes** | 4,844 | 6,836 | 2,930 | 3,151 |
| Income tax expense | 1,631 | 2,391 | 825 | 926 |
| **Net income** | 3,213 | 4,445 | 2,105 | 2,225 |
| **(Income) loss attributable to noncontrolling interest** | (5) | (10) | (5) | 2 |
| **Net income attributable to Red Lion Hotels Corporation** | $ 3,208 | $ 4,435 | $ 2,100 | $ 2,227 |
| **EBITDA** | $ 12,447 | $ 14,113 | $ 24,825 | $ 24,101 |
| **EBITDA as a percentage of revenues** | 24.7% | 24.8% | 19.1% | 16.5% |

Operating expenses decreased $4.6 million, or 9.6%, quarter-over-quarter, primarily driven by a $6.1 million reduction in hotel operating expenses offset by a $1.3 million increase in the entertainment segment operating costs and a $0.4 million increase in depreciation expense. Operating expenses decreased $16.4 million, or 12.0%, in the nine-month comparable period, which included a $3.7 million charge for separation costs associated with the retirement of our former President and Chief Executive Officer for the nine-month period ended September 30, 2008. The following table details the impact of the $3.7 million charge on net income, earnings per share and EBITDA for the first nine months of 2008 (in thousands, except per share data):

Table of Contents

| | Nine months ended September 30, 2008 (in thousands) |
|---|---|
| Separation costs | $ (3,654) |
| Income tax benefit | 1,297 |
| **Impact of separation costs on net income** | $ (2,357) |
| | |
| Separation costs | $ (0.20) |
| Income tax benefit | 0.07 |
| **Impact of separation costs on earnings per share** | $ (0.13) |
| | |
| **Impact of separation costs on EBITDA** | $ (3,654) |

EBITDA represents net income attributable to Red Lion Hotels Corporation before interest expense, income tax expense and depreciation and amortization. We utilize EBITDA as a financial measure because management believes that investors find it a useful tool to perform more meaningful comparisons of past, present and future operating results and as a means to evaluate the results of core, on-going operations. We believe it is a complement to net income attributable to Red Lion Hotels Corporation and other financial performance measures. EBITDA is not intended to represent net income attributable to the Company as defined by generally accepted accounting principles in the United States ( GAAP ), and such information should not be considered as an alternative to net income, cash flows from operations or any other measure of performance prescribed by GAAP.

We use EBITDA to measure the financial performance of our owned and leased hotels because we believe interest, taxes and depreciation and amortization bear little or no relationship to our operating performance. By excluding interest expense, EBITDA measures our financial performance irrespective of our capital structure or how we finance our properties and operations. We generally pay federal and state income taxes on a consolidated basis, taking into account how the applicable taxing laws apply to us in the aggregate. By excluding taxes on income, we believe EBITDA provides a basis for measuring the financial performance of our operations excluding factors that our hotels cannot control. By excluding depreciation and amortization expense, which can vary from hotel to hotel based on historical cost and other factors unrelated to the hotels financial performance, EBITDA measures the financial performance of our hotels without regard to their historical cost. For all of these reasons, we believe EBITDA provides us and investors with information that is relevant and useful in evaluating our business.

However, because EBITDA excludes depreciation and amortization, it does not measure the capital we require to maintain or preserve our fixed assets. In addition, because EBITDA does not reflect interest expense, it does not take into account the total amount of interest we pay on outstanding debt nor does it show trends in interest costs due to changes in our borrowings or changes in interest rates. EBITDA, as defined by us, may not be comparable to EBITDA as reported by other companies that do not define EBITDA exactly as we define the term. Because we use EBITDA to evaluate our financial performance, we reconcile it to net income attributable to Red Lion Hotels Corporation, which is the most comparable financial measure calculated and presented in accordance with GAAP. EBITDA does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity.

The following is a reconciliation of EBITDA to net income attributable to Red Lion Hotels Corporation for the periods presented (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| **EBITDA** | $ 12,447 | $ 14,113 | $ 24,825 | $ 24,101 |
| Income tax expense | (1,631) | (2,391) | (825) | (926) |
| Interest expense | (2,268) | (2,321) | (6,297) | (6,955) |
| Depreciation and amortization | (5,340) | (4,966) | (15,603) | (13,993) |
| **Net income attributable to Red Lion Hotels Corporation** | $ 3,208 | $ 4,435 | $ 2,100 | $ 2,227 |

Table of Contents

***Revenue***

A breakdown of our revenues for the three and nine months ended September 30, 2009 and 2008 is as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| **Operating revenue** | | | | |
| **Hotels:** | | | | |
| Rooms | $ 33,851 | $ 39,280 | $ 83,168 | $ 95,399 |
| Food and beverage | 10,454 | 12,643 | 31,037 | 36,459 |
| Other department | 1,320 | 1,549 | 3,180 | 3,543 |
| Total hotels segment | 45,625 | 53,472 | 117,385 | 135,401 |
| **Franchise** | 389 | 769 | 1,397 | 1,549 |
| **Entertainment** | 3,861 | 1,869 | 8,968 | 6,975 |
| **Other** | 592 | 776 | 1,986 | 2,331 |
| **Total Operating Revenue** | $ 50,467 | $ 56,886 | $ 129,736 | $ 146,256 |

***Three Months Ended September 30, 2009 and 2008***

During the third quarter of 2009, revenue from the hotels segment decreased $7.8 million, or 14.7%, compared to the third quarter of 2008, primarily as a result of a $5.4 million decrease in room revenue, including quarter-over-quarter decreases in group and transient revenues of $2.8 million and $2.1 million, respectively. The current period reflects an 8.6% decrease in average daily rate and a 420 basis point drop in occupancy.

Revenue from the franchise segment decreased $0.4 million due to the receipt of $0.3 million in termination fees during the third quarter of 2008 from two franchise properties that left the system in September 2008. In addition, there was a decrease in royalty fees collected during the third quarter of 2009 as a result of having fewer franchised hotels in our system year-over-year. Revenues from the entertainment segment increased $2.0 million quarter-over-quarter a result of our production of Disney s The Lion King in Anchorage, Alaska that commenced in September 2009, with no comparable shows presented in the third quarter of 2008.

***Nine Months Ended September 30, 2009 and 2008***

In the first nine months of 2009, revenue from the hotels segment decreased $18.0 million, or 13.3%, compared to the first nine months of 2008. The decrease was primarily driven by a $12.2 million, or 12.8%, decline in room revenue which included a $6.4 million decrease in transient revenue and a $4.9 million decrease in group revenue in the comparable periods. Compared to the first nine months of 2008, average daily rate decreased 5.9% and occupancy levels dropped 520 basis points to 59.5%.

Revenue from the franchise segment decreased $0.2 million compared to the first nine months of 2008, due to the receipt of $0.3 million in termination fees during the third quarter of 2008, as discussed above, offset by $0.3 million settlement received in the second quarter of 2009 from a franchise that we terminated from the system in 2008 as well as a decrease in royalty fees collected in 2009 as a result of fewer franchisees. Entertainment revenue increased $2.0 million to $9.0 million during the first nine months of 2009 compared to 2008, primarily attributable to our production of Disney s The Lion King as discussed above.

***Operating Expenses***

Operating expenses include direct operating expenses for each of the operating segments, hotel facility and land lease expense, depreciation and amortization, gain or loss on asset dispositions and undistributed corporate expenses. In the aggregate, operating expenses during the three and nine months ended September 30, 2009, decreased $4.6 million and $16.4 million, respectively, over the same periods in 2008 as provided below:

17

Table of Contents

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| **Operating Expenses** | | | | |
| Hotels | $ 31,253 | $ 37,375 | $ 86,289 | $ 100,827 |
| Franchise | 153 | 81 | 297 | 226 |
| Entertainment | 2,987 | 1,712 | 7,375 | 6,886 |
| Other | 528 | 483 | 1,609 | 1,547 |
| Depreciation and amortization | 5,340 | 4,966 | 15,603 | 13,993 |
| Hotel facility and land lease | 1,826 | 1,850 | 5,476 | 5,496 |
| Gain on asset dispositions, net | (85) | (64) | (132) | (204) |
| Undistributed corporate expenses | 1,542 | 1,746 | 4,529 | 8,710 |
| **Total operating expenses** | $ 43,544 | $ 48,149 | $ 121,046 | $ 137,481 |
| **Hotels revenue owned** | $ 32,354 | $ 38,426 | $ 84,545 | $ 95,127 |
| Direct margin [(1)] | $ 10,629 | $ 12,304 | $ 24,419 | $ 26,433 |
| Direct margin % | 32.9% | 32.0% | 28.9% | 27.8% |
| **Hotels revenue leased** | $ 13,271 | $ 15,046 | $ 32,840 | $ 40,274 |
| Direct margin [(1)] | $ 3,743 | $ 3,793 | $ 6,677 | $ 8,141 |
| Direct margin % | 28.2% | 25.2% | 20.3% | 20.2% |
| **Franchise revenue** | $ 389 | $ 769 | $ 1,397 | $ 1,549 |
| Direct margin [(1)] | $ 236 | $ 688 | $ 1,100 | $ 1,323 |
| Direct margin % | 60.7% | 89.5% | 78.7% | 85.4% |
| **Entertainment revenue** | $ 3,861 | $ 1,869 | $ 8,968 | $ 6,975 |
| Direct margin [(1)] | $ 874 | $ 157 | $ 1,593 | $ 89 |
| Direct margin % | 22.6% | 8.4% | 17.8% | 1.3% |
| **Other revenue** | $ 592 | $ 776 | $ 1,986 | $ 2,331 |
| Direct margin [(1)] | $ 64 | $ 293 | $ 377 | $ 784 |
| Direct margin % | 10.8% | 37.8% | 19.0% | 33.6% |

(1) Revenues less direct operating expenses.

***Three Months Ended September 30, 2009 and 2008***

Our hotel properties have been actively involved in cost cutting measures and constant evaluation of our business processes and the products and services we provide to our guests. Direct hotel expenses decreased $6.1 million, or 16.4%, from the third quarter of 2008, compared with a hotel segment revenue decrease of 14.7% during the third quarter of 2009. Room and food-related expenditures were down $1.4 million and $1.8 million, respectively, in the third quarter of 2009 compared to the third quarter of 2008. Overall, the hotels segment had a direct profit of $14.4 million in the third quarter of 2009 compared to $16.1 million during the third quarter of 2008, providing for a direct operating margin in the third quarter of 2009 of 31.5%, a 140 basis point improvement compared to 30.1%

during the same period in 2008.

Direct costs for the franchise segment increased to $0.2 million in the third quarter of 2009 compared to $0.1 million reported during the third quarter of 2008. The entertainment segment reported increased expenses of $1.3 million, compared to a revenue increase of $2.0 million during the third quarter of 2009 compared to the same period in 2008, a direct result of the different mix of show between the comparable periods. Overall, the entertainment segment reported a direct margin of 22.6% during the third quarter of 2009 compared to 8.4% in the third quarter of 2008.

Undistributed corporate expenses include general and administrative charges such as corporate payroll, legal expenses, charitable contributions, director and officers insurance, bank service charges and outside accountants and various other consultants expense. We consider these expenses to be undistributed because the costs are not directly related to our business segments and therefore are not further distributed. However, costs that can be identified with a particular segment are distributed, such as accounting, human resources and information technology, and are included in direct expenses. Total undistributed corporate expenses decreased by 11.7% quarter-over-quarter to $1.5 million, a result of cost containment measures.

Table of Contents

***Nine Months Ended September 30, 2009 and 2008***

Direct hotel expenses during the first nine months of 2009 decreased $14.5 million, or 14.4%, over the first nine months of 2008. Rooms-related expenses decreased $3.9 million, combined with a food-related expense decrease of $4.6 million during the comparable periods. Overall, the segment recorded direct profit during the first nine months of 2009 of $31.1 million compared to $34.6 million during the first nine months of 2008, a result of weakened demand partially offset by property-level cost controls. Year-over-year, hotel direct margins increased 100 basis points.

Direct costs for the franchise segment increased slightly to $0.3 million during the first nine months of 2009 and 2008. Entertainment costs increased $0.5 million, or 7.1%, from the prior year period. Overall, the entertainment segment reported a direct margin profit of $1.6 million during the first nine months of 2009 compared to a direct margin profit of $0.1 million during the first nine months of 2008. Current year results reflect more shows presented compared to the first nine months of 2008, particularly due to the production of Disney s The Lion King that commenced in September 2009.

Undistributed corporate expenses during the first nine months of 2008 included the $3.7 million charge for separation costs discussed above, which was the most substantial contributor to the $4.2 million variance year-over-year. The decrease in expense year-over-year can also be attributed to cost control measures.

***Income Taxes***

During the third quarter of 2009, we reported income tax expense of $1.6 million compared to $2.4 million during the third quarter of 2008. During the first nine months of 2009, we recognized income tax expense of $0.8 million, compared to $0.9 million during the same period in 2008. In 2008, our income tax expense included a benefit of $1.3 million associated with the separation costs recorded upon the retirement of our former President and Chief Executive Officer. The experienced rate on pre-tax net income differed from the statutory combined federal and state rates primarily due to the utilization of certain incentive tax credits allowed under federal law.

**Liquidity and Capital Resources**

We believe that our assets provide us with a stable, positive cash flow and we have the financial flexibility to manage our business. We expect to meet our short-term liquidity needs over the next twelve months using funds generated from operating activities, by existing cash and cash equivalents of $5.1 million at September 30, 2009 and through additional borrowings on our $50 million credit facility. During the first nine months of 2009, we repaid a net $14.0 million on the facility resulting in an outstanding balance of $22.0 million as of September 30, 2009. We have the ability to increase this facility to $100 million, subject to satisfaction of various conditions, including continued compliance with our debt covenants and the furnishing of additional collateral.

At September 30, 2009, total outstanding debt was $133.9 million. In addition to the $22.0 million outstanding under the credit facility, we had other outstanding debt of $13.3 million under a variable rate note with a bank, $30.8 million in the form of deeply subordinated trust preferred securities and a total of $67.8 million in 13 fixed-rate notes collateralized by individual properties. Our average pre-tax interest rate on debt was 6.3% at September 30, 2009, 73.6% of which was fixed at an average rate of 7.9% and the remaining 26.4% was at an average variable rate of 2.0%. Our first debt matures in September 2011. Only the credit facility and variable rate bank note have restricted financial covenants, with which we were in compliance as of September 30, 2009.

A comparative summary of our balance sheets at September 30, 2009 and December 31, 2008 is provided below:

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| **Consolidated balance sheet data (in thousands):** | | |
| Cash and cash equivalents | $ 5,050 | $ 18,222 |
| Working capital [(1)] | $ (2,258) | $ 10,007 |
| Property and equipment, net | $298,349 | $298,496 |
| Total assets | $367,531 | $380,772 |
| | | |
| Total long-term debt | $103,094 | $119,331 |

| | | |
|---|---|---|
| Debentures due Red Lion Hotels Capital Trust | $ 30,825 | $ 30,825 |
| Total liabilities | $182,986 | $199,381 |
| Total stockholders equity | $184,545 | $181,391 |

(1) Represents current assets less current liabilities.

During the remaining three months of 2009, we expect cash expenditures to primarily include the funding of operating activities, interest payments on our outstanding indebtedness and additional capital expenditures. We expect to meet our long-term liquidity requirements for future investments and continued hotel and other various capital improvements through net cash provided by operations, debt or equity issuances.

***Operating Activities***

Net cash provided by operations decreased $1.7 million to $19.2 million during the first nine months of 2009 compared to the 2008 period. Non-cash income statement expenses, including depreciation and amortization, provision for deferred tax and stock based compensation, increased 10.7% during the first nine months of 2009, offset by unfavorable working capital changes, including restricted cash, receivables, accruals and the receipt of deferred lease income, which resulted in decreased cash flow of $3.3 million during the first nine months of 2009. We realized a $9.3 million change in accounts payable in the first nine months of 2009 compared to 2008, primarily as a result of renovation activities that were completed at our Red Lion Anaheim property in February 2009, offset by a $2.1 million positive change in accounts receivable in 2009 compared to 2008. In June 2009, we received $0.9 million in deferred lease income pursuant to an amendment to the sublease agreement for the Red Lion Hotel Sacramento. The $0.9 million will be recognized over the life of the sublease agreement.

***Investing Activities***

Net cash used in investing activities during the first nine months of 2009 totaled $16.1 million, compared to $40.8 million in the comparable 2008 period. Cash additions to property and equipment decreased $2.9 million, excluding the purchase of the Red Lion Hotel Denver Southeast in May 2008, due primarily to a slowdown of expenditure on all capital spending offset by renovations at our Red Lion Anaheim, Seattle s Fifth Avenue and Denver properties. The first nine months of 2008 included the acquisition of the Red Lion Hotel Denver Southeast for $25.3 million in May 2008, and property and equipment additions throughout the system, including Micros-OPERA property management systems. During the first nine months of 2009, we utilized $0.9 million of restricted cash to fulfill our commitment of $0.9 million in tenant improvements at the Red Lion Hotel Sacramento in connection with an amendment to the sublease agreement.

During the first nine months of 2008, we utilized $2.1 million of restricted cash to fulfill our original commitment of $3.0 million in tenant improvements at the Red Lion Hotel Sacramento as discussed above. This original commitment was completed by the end of 2008. Also during the first nine months of 2008, we received approximately $0.5 million for a worker s compensation premium reimbursement and from the payoff of a long-term receivable.

***Financing Activities***

Net financing activities utilized cash of approximately $16.3 million during the first nine months of 2009 compared to $20.8 million provided during the 2008 period. During the first nine months of 2009, we repaid a net $14.0 million on our $50 million credit facility, as well as $2.2 million in scheduled principal long-term debt payments.

In 2008, $23.0 million was provided from our credit facility to finance the acquisition of the Red Lion Hotel Denver Southeast, offset by the repayment of $5.0 million in scheduled principal long-term debt payments and the repayment of $2.0 million of the $23.0 million drawn on the credit facility in May 2008. During September 2008, we closed on a $14.0 million loan, $8.2 million of which was used to pay off existing debt.

At September 30, 2009, we had total debt obligations of $133.9 million, of which $66.2 million was securitized debt collateralized by individual hotels with fixed interest rates ranging from 6.7% to 8.1%. Our average pre-tax interest rate on debt was 6.3% at September 30, 2009, compared to 7.2% at this same time a year ago. Included within outstanding debt are debentures due to the Red Lion Hotels Capital Trust of $30.8 million, which are uncollateralized and due to the trust at a fixed rate of 9.5%.

Of the $66.2 million in securitized debt, three pools of cross securitized debt exist: (i) one consisting of five properties with a total of $20.2 million, all of which mature in 2013; (ii) a second consisting of two properties with total borrowings of $18.2 million, which both mature in 2011; and (iii) a third consisting of four properties with total borrowings of $22.6 million, all of which mature in 2013. Each pool of securitized debt and the other collateralized hotel borrowings include defeasance provisions for early repayment.

In December 2008, we announced a common stock repurchase program for up to $10.0 million. During December 2008, we repurchased 303,000 shares at a cost of $0.9 million. No shares were repurchased in the first nine

months of 2009. During the first quarter of 2008, we purchased 93,000 shares at an aggregate cost of $0.9 million under a repurchase program announced in September 2007.



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Table of Contents

**Contractual Obligations**

The following table summarizes our significant contractual obligations as of September 30, 2009 (in thousands):

| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| Long-term debt [(1)] | $ 119,420 | $ 8,700 | $ 57,926 | $ 52,794 | $ |
| Operating leases [(2)] | 59,467 | 8,031 | 13,382 | 9,863 | 28,191 |
| Service agreements | 825 | 275 | 550 | | |
| Debentures due Red Lion Hotels Capital Trust [(1)] | 131,609 | 2,928 | 5,857 | 5,857 | 116,967 |
| Total contractual obligations[(3)] | $ 311,321 | $ 19,934 | $ 77,715 | $ 68,514 | $ 145,158 |

(1) Including estimated interest payments and commitment fees over the life of the debt agreement.

(2) Operating lease amounts are net of estimated sublease income of $11.9 million annually.

(3) With regard to purchase obligations, we are not party to any material agreements to purchase goods or services that are enforceable or legally binding as to fixed or minimum quantities to be purchased or stated price terms.

In July 2007, we entered into an agreement to sublease the Red Lion Hotel Sacramento to a third party with an initial lease term expiring in 2020. In connection with the sublease agreement, as well as an amendment to that agreement entered into during the second quarter of 2009, we have received deferred lease income of $3.9 million, which will be amortized over the life of the sublease agreement. The sublease agreement provides for annual rent payments of $1.4 million, which we have netted against lease amounts payable by us in computing the operating lease amounts shown in the above table.

In October 2007, we completed an acquisition of a 100-year (including extension periods) leasehold interest in a hotel in Anaheim, California for $8.3 million, including costs of acquisition. As required under the terms of the leasehold agreement, we will pay $1.8 million per year in lease payments through April 2011, the amounts of which have been reflected in the above table. At our option, we are entitled to extend the lease for 19 additional terms of five years each, with increases in lease payments tied directly to the Consumer Price Index. Beyond the monthly payments through April 2011, we have not included any additional potential future lease commitment related to the Anaheim property in the table above.

In May 2008, we completed an acquisition of a hotel in Denver, Colorado. In connection with the purchase agreement, we assumed an office lease used by guests contracted to stay at the hotel for approximately $0.6 million annually. As part of this contract business, we are reimbursed the entire lease expense amount. The lease expires in August 2012, the expense of which has been included in the table above.

**Off-balance Sheet Arrangements**

As of September 30, 2009, we had no off-balance sheet arrangements, as defined by SEC regulations, which have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

**Other Matters**

***Franchise Contracts***

At September 30, 2009, our system of hotels included 13 hotels under franchise agreements, representing a total of 2,428 rooms and 121,560 square feet of meeting space. During the first quarter of 2009, the franchise agreement for the Red Lion Hotel and Casino Winnemucca (105 rooms) expired and was not renewed, and this property left our system of hotels. During the third quarter of 2009, a franchise agreement for the Red Lion Baton Rouge (132 rooms) ended by agreement and was not renewed, and this property also left our system of hotels.

***Seasonality***

Our business is subject to seasonal fluctuations, with more revenues and profits realized from May through October than during the rest of the year. During 2008, second and third quarter revenues approximated 26.6% and 30.3%, respectively, of total revenues for the year, compared to revenues of 21.1% and 22.0% of total revenues during the first and fourth quarters.

Table of Contents

*Inflation*

The effect of inflation, as measured by fluctuations in the U.S. Consumer Price Index, has not had a material impact on our consolidated financial statements during the periods under review.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and (ii) the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates. We consider a critical accounting policy to be one that is both important to the portrayal of our financial condition and results of operations and requires management s most subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our significant accounting policies are described in Note 2 of Notes to Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2008.

Management has discussed the development and selection of our critical accounting policies and estimates with the audit committee of our board of directors, and the audit committee has reviewed the disclosures presented on Form 10-K for the year ended December 31, 2008. Since the date of our 2008 Form 10-K, there have been no material changes to our critical accounting policies, nor have there been any changes to our methodology and assumptions applied to these policies.

**New Accounting Pronouncements**

See Note 11 of Condensed Notes to Consolidated Financial Statements for information related to the adoption of new accounting standards in the first nine months of 2009, none of which had a material impact on our consolidated financial statements. For the future adoption of recently issued accounting standards, also see Note 11. We are currently evaluating the impact that accounting changes regarding the transfers of financial assets and changes of accounting regarding variable interest entities will have on our consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

At September 30, 2009, $98.6 million of our outstanding debt was subject to currently fixed interest rates and was not exposed to market risk from rate changes. At September 30, 2009, a total of $22.0 million was outstanding on our revolving credit facility at an interest rate of 2.0% based on a 30-day LIBOR plus 1.75%. Outstanding borrowings under the facility accrue interest rates that range from 150 to 225 basis points over LIBOR, with an option for a base rate loan based upon the federal fund rate or prime rate. We also have $13.3 million outstanding on a five-year loan that closed in September 2008, and had an interest rate at September 30, 2009 of 2.0% based on a stated spread over LIBOR. We do not foresee any significant changes in our exposure to fluctuations in interest rates, although we will continue to manage our exposure to this risk by monitoring available financing alternatives.

The below table summarizes our debt obligations at September 30, 2009 on our consolidated balance sheet (in thousands). During the first nine months of 2009, recurring scheduled principal payments of $2.2 million were made that were included as debt obligations at December 31, 2008. In addition, we repaid a net $14.0 million on our $50 million credit facility, which also was included as a debt obligation at December 31, 2008.

| | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| Long-term debt | $769 | $3,172 | $47,276 | $1,976 | $49,901 | $ | $103,094 | $97,973 |
| Average interest rate | | | | | | | 5.4% | |
| Debentures due Red Lion Hotels Capital Trust | $ | $ | $ | $ | $ | $30,825 | $ 30,825 | $25,814 |
| | | | | | | | 9.5% | |

Average
interest rate

**Item 4. Controls and Procedures**

As of September 30, 2009, we carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer ( CEO ) and our Chief Financial Officer ( CFO ), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective to ensure that material information required to be disclosed by us in the reports filed or submitted by us under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within time periods specified in Securities and Exchange Commission rules and forms.

Table of Contents

There were no changes in internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f), during the third quarter of 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

At any given time, we are subject to claims and actions incidental to the operation of our business. While the outcome of these proceedings cannot be predicted, it is the opinion of management that none of such proceedings, individually or in the aggregate, will have a material adverse effect on our business, financial condition, cash flows or results of operations.

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in our annual report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described in our annual report may not be the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results in the future.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Submission of Matters to a Vote of Security Holders

None.

### Item 5. Other Information

None.

### Item 6. Exhibits

**Index to Exhibits**

| Exhibit Number | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) |
| 31.2 | Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) |
| 32.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rule 13(a)-14(b) |
| 32.2 | Certification of Chief Financial Officer pursuant to Exchange Act Rule 13(a)-14(b) |

Table of Contents

## SIGNATURES

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

**Red Lion Hotels Corporation**
Registrant

| Signature | Title | Date |
|---|---|---|
| By: **/s/ Anupam Narayan**<br>Anupam Narayan | President and Chief Executive Officer (Principal Executive Officer) | November 5, 2009 |
| By: **/s/ Anthony F. Dombrowik**<br>Anthony F. Dombrowik | Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer) | November 5, 2009 |