

Red Lion Hotels CORP  
Form 10-Q  
November 05, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-13957

RED LION HOTELS CORPORATION  
(Exact name of registrant as specified in its charter)

Washington 91-1032187  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

201 W. North River Drive, Suite 100 99201  
Spokane Washington (Zip Code)  
(Address of principal executive offices)  
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  No

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  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

As of November 1, 2013, there were 19,685,393 shares of the registrant's common stock outstanding.



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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

RED LION HOTELS CORPORATION  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

September 30, 2013 and December 31, 2012

	September 30, 2013	December 31, 2012
	(In thousands, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$27,302	\$6,477
Restricted cash	6	2,417
Accounts receivable, net	5,565	5,774
Notes receivable	597	4,112
Inventories	1,370	1,329
Prepaid expenses and other	3,299	2,648
Deferred income taxes	950	2,342
Assets held for sale	—	18,288
Total current assets	39,089	43,387
Property and equipment, net	192,497	195,012
Goodwill	8,512	8,512
Intangible assets	6,992	6,992
Notes receivable, long term	4,407	2,902
Other assets, net	4,282	4,137
Total assets	\$255,779	\$260,942
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$6,736	\$5,967
Accrued payroll and related benefits	4,130	2,504
Accrued interest payable	39	190
Advance deposits	245	248
Other accrued expenses	11,795	9,286
Long-term debt, due within one year	3,000	49,178
Total current liabilities	25,945	67,373
Long-term debt, due after one year, net of discount	41,529	—
Deferred income	3,572	3,923
Deferred income taxes	3,070	5,913
Debentures due Red Lion Hotels Capital Trust	30,825	30,825
Total liabilities	104,941	108,034
Commitments and contingencies	—	—
<b>STOCKHOLDERS' EQUITY</b>		
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; 19,658,833 and 19,451,849 shares issued and outstanding	197	195

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Additional paid-in capital	151,980	150,798
Accumulated other comprehensive income (loss), net of tax	(164	) —
Retained earnings (accumulated deficit)	(1,175	) 1,915
Total stockholders' equity	150,838	152,908
Total liabilities and stockholders' equity	\$255,779	\$260,942

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

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RED LION HOTELS CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)

For the Three and Nine Months Ended September 30, 2013 and 2012

	Three Months Ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Revenue:				
Hotels	\$38,590	\$42,397	\$96,744	\$107,074
Franchise	2,368	1,555	5,574	3,953
Entertainment	1,623	1,456	6,774	6,356
Other	83	94	256	327
Total revenues	42,664	45,502	109,348	117,710
Operating expenses:				
Hotels	27,442	31,324	76,226	84,196
Franchise	1,862	1,219	5,174	3,487
Entertainment	1,458	1,475	6,558	6,245
Other	131	201	371	601
Depreciation and amortization	3,561	3,774	10,839	11,459
Hotel facility and land lease	1,251	1,148	3,597	3,430
Asset impairment	—	1,868	—	8,797
Loss (gain) on asset dispositions, net	100	(16)	(21)	(223)
Undistributed corporate expenses	2,835	1,602	6,500	4,885
Total operating expenses	38,640	42,595	109,244	122,877
Operating income (loss)	4,024	2,907	104	(5,167)
Other income (expense):				
Interest expense	(1,252)	(1,751)	(4,281)	(5,388)
Other income, net	98	46	401	74
Income (loss) before taxes	2,870	1,202	(3,776)	(10,481)
Income tax expense (benefit)	1,414	624	(1,127)	(3,827)
Income (loss) from continuing operations	1,456	578	(2,649)	(6,654)
Discontinued operations				
Income (loss) from discontinued business units, net of income tax (benefit) expense of (\$55) and \$46 for the three months ended and \$31 and \$75 for the nine months ended September 30, 2013 and 2012, respectively	(96)	82	52	136
Income (loss) on disposal and impairment of the assets of the discontinued business units, net of income tax (benefit) expense of (\$75) and (\$889) for the three months ended and (\$280) and (\$2,566) for the nine months ended September 30, 2013 and 2012, respectively	(133)	(1,566)	(493)	(4,526)
Income (loss) from discontinued operations	(229)	(1,484)	(441)	(4,390)
Net income (loss)	1,227	(906)	(3,090)	(11,044)
Less net income or loss attributable to noncontrolling interest	—	—	—	(7)
Net income (loss) attributable to Red Lion Hotels Corporation	1,227	(906)	(3,090)	(11,037)
Comprehensive income (loss)				
Unrealized gains (losses) on cash flow hedge, net of tax	(30)	—	(164)	—

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Comprehensive income (loss) attributable to Red Lion Hotels Corporation	\$1,197	\$ (906 )	\$ (3,254 )	\$ (11,037 )
Earnings per share - basic and diluted				
Income (loss) from continuing operations	\$0.07	\$0.03	\$ (0.14 )	\$ (0.34 )
Income (loss) from discontinued operations	\$ (0.01 )	\$ (0.08 )	\$ (0.02 )	\$ (0.23 )
Net income (loss) attributable to Red Lion Hotels Corporation	\$0.06	\$ (0.05 )	\$ (0.16 )	\$ (0.57 )
Weighted average shares - basic	19,631	19,366	19,538	19,294
Weighted average shares - diluted	19,672	19,438	19,538	19,294

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

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RED LION HOTELS CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
For the Nine Months Ended September 30, 2013 and 2012

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Operating activities:		
Net loss	\$(3,090	) \$(11,044
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,844	12,103
(Gain) loss on disposition of property, equipment and other assets, net	752	16
Amortization of debt issuance costs	49	—
Asset impairment	—	15,651
Deferred income taxes	(1,459	) (6,082
Equity in investments	38	18
Stock based compensation expense	1,492	1,060
Excess tax shortfall from stock-based compensation	(102	) 23
Provision for doubtful accounts	58	383
Change in current assets and liabilities:		
Restricted cash	2,411	490
Accounts receivable	126	665
Inventories	(136	) (236
Prepaid expenses and other	(651	) (1,243
Accounts payable	712	1,502
Accrued payroll and related benefits	1,327	1,842
Accrued interest payable	(151	) 729
Deferred income	—	(17
Other accrued expenses and advance deposits	2,248	2,529
Net cash provided by operating activities	14,468	18,389
Investing activities:		
Purchases of property and equipment	(8,534	) (5,798
Proceeds from disposition of property and equipment	16,024	12,098
Collection of notes receivable	3,730	—
Advances to Red Lion Hotels Capital Trust	(27	) (27
Other, net	65	(371
Net cash provided by investing activities	11,258	5,902
Financing activities:		
Borrowings on credit facility	—	2,122
Repayment of credit facility	(9,800	) (2,966
Borrowings on long-term debt	44,500	—
Repayment of long-term debt	(38,878	) (11,144
Proceeds from stock options exercised	11	39
Excess tax shortfall from stock-based compensation	102	(23
Proceeds from issuance of common stock under employee stock purchase plan	82	102
Additions to deferred financing costs	(918	) (256



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Net cash used in financing activities	(4,901	) (12,126	)
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The accompanying condensed notes are an integral part of the consolidated financial statements

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RED LION HOTELS CORPORATION  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - (Continued)  
 For the Nine Months Ended September 30, 2013 and 2012

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Change in cash and cash equivalents:		
Net increase in cash and cash equivalents	20,825	12,165
Cash and cash equivalents at beginning of period	6,477	1,981
Cash and cash equivalents at end of period	\$27,302	\$14,146
Supplemental disclosure of cash flow information:		
Cash paid during periods for:		
Income taxes	\$22	\$108
Interest on long-term debt	\$4,383	\$4,659
Cash received during periods for:		
Income taxes	\$78	\$—
Non-cash operating, investing and financing activities:		
Reclassification of property and other assets/liabilities to assets held for sale	\$156	\$16,671
Exchange of real property for a note receivable	\$1,720	\$2,000
Common stock redeemed	\$299	\$210
Conversion of restricted cash to accounts receivable	\$—	\$75
Exchange of common stock for noncontrolling interest in partnership	\$—	\$50
Conversion of note receivable to fixed assets	\$—	\$210
Bonuses to employees paid in stock	\$—	\$125

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

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RED LION HOTELS CORPORATION  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Red Lion Hotels Corporation (“Red Lion”, “we”, “our”, “us” 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 hotels under our proprietary brands, including Red Lion Hotels, Red Lion Inns & Suites and Leo Hotel Collection. As of September 30, 2013, the Red Lion network of hotels was comprised of 52 hotels located in 10 states and one Canadian province. The Red Lion Hotels and Red Lion Inn & Suites network was comprised of 50 hotels with 8,903 rooms and 462,135 square feet of meeting space, of which we operated 25 hotels (19 are wholly owned and six are leased), and franchised 25 hotels. The Leo Hotel Collection was comprised of two franchised hotels with 3,256 rooms and 241,000 square feet of meeting space.

We are also engaged in entertainment operations, which derive revenues from promotion and presentation of entertainment productions and ticketing services under the operations of WestCoast Entertainment and TicketsWest. The ticketing service offers online ticket sales, ticketing inventory management systems, call center services, and outlet/electronic distributions for event locations.

We were incorporated in the state of Washington in April 1978, and until 1999 operated hotels under various brand names including Cavanaugh's Hotels. In 1999, we acquired WestCoast Hotels, Inc., and rebranded our Cavanaugh's hotels to the WestCoast brand, changing our name to WestCoast Hospitality Corporation. In 2001, we acquired Red Lion Hotels, Inc. In September 2005, after rebranding most of our WestCoast hotels to the Red Lion brand, we changed our name to Red Lion Hotels Corporation. The financial statements encompass the accounts of Red Lion Hotels Corporation and all of its consolidated subsidiaries, including Red Lion Hotels Holdings, Inc., Red Lion Hotels Franchising, Inc., and Red Lion Hotels Limited Partnership (“RLHLP”).

During a portion of the first quarter of 2012, Red Lion Hotels Corporation owned 99.7% of RLHLP. The remaining 0.3% is reflected in our first quarter 2012 financial statements as noncontrolling interest. In February 2012, we elected to issue 44,837 shares of our common stock in exchange for a like number of operating partnership units that then certain limited partners had put to RLHLP. RLHLP remained in existence as a limited partnership because there were 70,842.51 operating partnership units held by North River Drive Company, a wholly owned subsidiary of Red Lion Hotels Corporation. In December 2012, North River Drive Company was merged into Red Lion Hotels Corporation and no longer exists. However, RLHLP remains a limited partnership for state law (but not federal tax) purposes because Red Lion Hotels Corporation and its wholly owned subsidiary, Bellevue Inn LLC, are its two partners.

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 we do not exercise significant influence. In addition, we hold a 3% common interest in Red Lion Hotels Capital Trust (the “Trust”) that is considered a variable interest entity. We are not the primary beneficiary of the Trust; thus, it is treated as an equity method investment. The consolidated financial statements include all of the activities of our cooperative marketing fund, a variable interest entity, of which we are the primary beneficiary.

All significant inter-company and inter-segment transactions and accounts have been eliminated upon consolidation.

2. Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared by us 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 consolidated balance sheet as of December 31, 2012 has been compiled from the audited balance sheet as of such date. We believe 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, 2012, 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 our consolidated financial position at September 30, 2013, the consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012, and the consolidated cash flows for the nine months ended September 30, 2013 and 2012. The comprehensive income (loss) for the periods presented may not be indicative of that which may be expected for a full year.

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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.

## Reclassifications

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported income/losses, total assets, or stockholders' equity as previously reported. See Notes 4, 5 and 6.

## 3. Recent Accounting Pronouncements

## Adopted Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). ASU 2013-11 requires an entity to present an unrecognized tax benefit and an NOL carryforward, a similar tax loss, or a tax credit carryforward on a net basis as part of a deferred tax asset, unless the unrecognized tax benefit is not available to reduce the deferred tax asset component or would not be utilized for that purpose, then a liability would be recognized. ASU 2013-11 will be effective for fiscal periods beginning after December 15, 2013, with early adoption permitted. We are currently evaluating the impact that the adoption of this guidance will have on our financial statements.

Management has assessed the potential impact of other recently issued, but not yet effective, accounting standards and determined that the provisions are either not applicable to our company, or are not anticipated to have a material impact on our consolidated financial statements.

## 4. Property and Equipment

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

	September 30, 2013	December 31, 2012
Buildings and equipment	\$222,351	\$221,217
Furniture and fixtures	40,230	38,976
Landscaping and land improvements	7,484	7,099
	270,065	267,292
Less accumulated depreciation and amortization	(140,896)	(133,446)
	129,169	133,846
Land	58,265	58,265
Construction in progress	5,063	2,901
Property and equipment, net	\$192,497	\$195,012

The table as of December 31, 2012 excludes the property and equipment of the Red Lion Hotel Medford, Oregon ("Medford property"), the Red Lion Hotel Pendleton in Pendleton, Oregon ("Pendleton property"), the Red Lion Hotel Missoula ("Missoula property"), and our commercial mall in Kalispell, Montana ("Kalispell Mall property"), which were classified as assets held for sale. The Missoula property was sold in February 2013, the Pendleton property and Kalispell Mall property were sold in April 2013 and the Medford property was sold in August 2013; their assets are no longer reflected on our balance sheet as of September 30, 2013. See Note 5 for further discussion.

#### 5. Assets Held for Sale

We consider properties to be assets held for sale when all of the following criteria are met:

- management commits to a plan to sell a property;
- it is unlikely that the disposal plan will be significantly modified or discontinued;
- the property is available for immediate sale in its present condition;

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actions required to complete the sale of the property have been initiated;  
sale of the property is probable, and we expect the completed sale will occur within one year; and  
the property is actively being marketed for sale at a price that is reasonable given its current market value.

Upon designation as an asset held for sale, we record the carrying value of each property at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and cease depreciation. The operations of a property held for sale prior to the sale date are recorded in discontinued operations unless we intend to have significant continuing involvement after the sale, for example, through a franchise or management agreement, in which case the operations remain part of continuing operations.

The consolidated balance sheet as of December 31, 2012 includes \$18.3 million of property and equipment of the Medford, Missoula, Kalispell Mall and Pendleton properties classified as assets held for sale; however they are excluded as of September 30, 2013, as they were sold and are no longer reflected on our balance sheet.

As discussed in Note 4, during 2013, the following properties were classified as held for sale:

### Missoula Property

During the fourth quarter of 2011, we listed for sale the Missoula property. The property and equipment of this property were classified as assets held for sale in the consolidated balance sheet as of December 31, 2012. During the quarter ended March 31, 2013, we sold the property for \$1.95 million. Concurrent with the sale, the purchaser signed a franchise agreement. We determined that while the continuing operations cash flows are not significant, we still have significant involvement under the franchise agreement such that the property should be classified as part of continuing operations for all periods presented.

### Pendleton Property

During the third quarter of 2012, we listed for sale our Pendleton property. The property and equipment of this property were classified as assets held for sale in the consolidated balance sheet as of December 31, 2012. On April 4, 2013, we closed on the sale of the Pendleton property for \$2.25 million, of which \$530,000 was paid in cash and issuance of a \$1.72 million secured promissory note requiring monthly payments of principal and interest until the remaining balance is due in April 2016. Concurrent with the sale, we entered into a franchising agreement with the new owners of the property resulting in the property remaining as part of continuing operations for all periods presented.

### Kalispell Mall Property

During the third quarter of 2012, we listed for sale our Kalispell Mall property. We did not maintain significant continuing involvement in the commercial mall after the sale and have classified the real estate operations of this property as discontinued operations for all periods presented. Refer to Note 6 for further detail. The property and equipment of this property have been classified as assets held for sale in the consolidated balance sheet as of December 31, 2012.

On April 25, 2013, we closed on the sale of the Kalispell Mall property for \$11.6 million. As required by the terms of our credit facility, we made a principal payment in the amount of \$8.8 million when the sale closed. See Note 8 for further discussion. Concurrent with the sale, we entered into a lease agreement with the buyer under which we are leasing and operating the attached Red Lion Hotel Kalispell for an initial term of 15 years with options for three renewal terms of five years each. The agreement provides for lease payments of \$0.5 million per year for the first 45 months, with annual increases thereafter of 2% per year.

Medford Property

During the fourth quarter of 2011, we listed for sale the Medford property. On August 1, 2013, we sold the property for \$2.8 million. We do not have any significant continuing involvement in this property after the sale; therefore the operations of this property remain classified as discontinued operations for all periods presented. The property and equipment of this property have been classified as assets held for sale in the consolidated balance sheet as of December 31, 2012. Refer to Note 6 for further detail.



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## Impairments of assets held for sale in continuing operations

At the time each property was listed for sale, and at any time during the marketing process in which there was a change in circumstances (such as a decrease in listed price), the carrying value of the assets was written down to estimated fair value less selling costs, and an impairment was recognized in either continuing operations or discontinued operations.

No impairments were identified during the nine months ended September 30, 2013. However, if we list additional assets for sale, it may result in future impairments or losses on the final sales.

In the third quarter of 2012, we recognized a pre-tax impairment charge of \$1.9 million on our Pendleton Property. For the nine months ended September 30, 2012, we recognized aggregate pre-tax impairment charges of \$8.8 million on our Pendleton and Missoula properties, our Red Lion Hotel Denver Southeast in Aurora, Colorado and our Red Lion Colonial Hotel in Helena, Montana.

## 6. Discontinued Operations

In addition to certain properties discussed above in Note 5 which were classified as discontinued operations, during the first quarter of 2013, we decided not to renew a catering contract in Yakima, Washington. Accordingly, all operations under this contract have been classified as discontinued operations for all periods presented. Certain property and equipment related to these operations were considered abandoned and a pre-tax loss on disposition of assets of \$0.1 million has been recognized in discontinued operations.

As of September 30, 2013, all properties listed as discontinued operations were either sold or disposed of and no assets or liabilities associated with the properties are included on the consolidated balance sheet. Included in the balance sheet at December 31, 2012, under assets held for sale were \$14.7 million of assets and \$0.4 million of liabilities associated with the discontinued operations of the Medford property, the Kalispell Mall property, and the Yakima catering contract.

The following table summarizes the results of discontinued operations for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	\$272	\$1,850	\$2,815	\$5,390
Operating expenses	(423)	(1,583)	(2,675)	(4,333)
Hotel facility and land lease	—	(61)	(52)	(204)
Depreciation and amortization	—	(78)	(5)	(642)
Income tax benefit (expense)	55	(46)	(31)	(75)
Income (loss) from operations of discontinued business units, net of tax	(96)	82	52	136
Loss on disposal and impairment of the assets of discontinued business units	(208)	(2,455)	(773)	(7,092)
Income tax benefit	75	889	280	2,566
Loss on disposal and impairment of the assets of the discontinued business units, net of tax	(133)	(1,566)	(493)	(4,526)
Income (loss) from discontinued operations	\$(229)	\$(1,484)	\$(441)	\$(4,390)



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### Impairments of assets held for sale in discontinued operations

At the time each property was listed for sale, and at any time during the marketing process in which there was a change in circumstances (such as a decrease in listed price), the carrying value of the assets was written down to estimated fair value less selling costs, and an impairment was recognized in discontinued operations.

No impairments were identified during the nine months ended September 30, 2013. However, if we list additional assets for sale, it may result in future impairments or losses on the final sales.

In the third quarter of 2012, we recognized a pre-tax impairment charge of \$2.2 million on the Kalispell Mall Property. For the nine months ended September 30, 2012, we recognized aggregate pre-tax impairment charges of \$6.8 million on our Medford and Kalispell Mall properties and our Red Lion Hotel Sacramento at Arden Village.

### 7. Goodwill and Intangible Assets

Goodwill represents the excess of the estimated fair value of the net assets acquired during business combinations over the net tangible and identifiable intangible assets acquired. Goodwill was recorded in prior years in connection with the acquisitions of franchises and entertainment businesses. The Red Lion brand name is an identifiable, indefinite lived-intangible asset that represents the separable legal right to a trade name and associated trademarks acquired in a business combination we entered into in 2001. Goodwill and the brand name are not amortized; however, we assess goodwill and the brand name for potential impairments annually in the fourth quarter, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the assets. We did not impair any goodwill during the nine months ended September 30, 2013 or 2012.

### 8. Credit Facility and Long-Term Debt

During the quarter ended June 30, 2013, we entered into an agreement with Wells Fargo Bank, National Association ("Wells Fargo") to expand our existing credit facility. The balance of the term loan under the credit facility at the time of the expansion was \$0.5 million and there was no outstanding balance on the revolving line of credit. The term loan was increased to a total of \$45.0 million, with \$38.2 million used to refinance nine fixed-rate notes collateralized by individual properties ("CMBS debt") that was maturing on July 11, 2013. The remaining balance of the term loan will be used for capital expenditures and for general corporate purposes.

The terms of the expanded facility are as follows:

Principal payments of \$750,000 are required on the term loan on the last day of each calendar quarter or the first business day thereafter. If a property securing the facility is sold we will be required to make an additional principal payment on the term loan equal to the greater of (i) 50% of the net proceeds from the sale or (ii) 50% of the appraised market value of the property sold. If any such additional principal payment exceeds \$1 million, the remaining principal balance amortization will be modified to reflect the additional payment.

• We paid origination fees of \$0.5 million.

• The term loan matures on June 30, 2018. The \$10 million revolving line of credit is available under the facility until June 30, 2015.

• Interest under the term loan and revolving line of credit will initially be payable at our option (i) at a fluctuating rate 75 basis points above a base rate in effect from time to time, or (ii) at a rate 325 basis points above LIBOR (under one, three or six month terms). Beginning in 2015, the spread on the LIBOR will decline if our senior leverage ratio is less than 3.00. We have entered into a swap to hedge 40% of our interest rate exposure under the term loan. See Note

2 for further discussion.

Our obligations under the facility are (i) guaranteed by our subsidiaries Red Lion Hotels Limited Partnership, Red Lion Hotels Franchising, Inc., Red Lion Hotels Management, Inc. and Red Lion Hotels Holdings, Inc., (ii) secured by our accounts receivable and inventory, and (iii) further collateralized by 19 of our hotel properties located in Bellevue, Spokane, Olympia, Port Angeles, Kennewick, Kelso, Richland, Yakima, Pasco and Wenatchee, Washington; in Post Falls, Pocatello, Twin Falls and Boise, Idaho; in Bend and Coos Bay, Oregon; in Eureka and Redding, California; and in Salt Lake City, Utah.

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The facility requires us to comply with customary affirmative and negative covenants, as well as financial covenants relating to leverage, debt service, and loan coverage ratios. It also includes customary events of default. We were in compliance with these covenants at September 30, 2013.

At September 30, 2013 outstanding debt was \$75.4 million. The debt balance includes the \$45.0 million outstanding on the term loan with Wells Fargo and the unamortized origination fees on the debt of \$0.4 million. In addition to this term loan, we also have a revolving line of credit with Wells Fargo for up to \$10 million, a portion of which supports outstanding letters of credit. At September 30, 2013, the full \$10 million on the revolving line of credit was available as we had no amount drawn on that date. Also included in the total debt amount is \$30.8 million of debentures due to Red Lion Hotels Capital Trust, maturing in 2044.

9. Derivative Financial Instruments and Accumulated Other Comprehensive Income (Loss)

We do not enter into derivative transactions for trading purposes, but rather to hedge our exposure to interest rate fluctuations. We manage our floating rate debt using interest rate swaps in order to reduce our exposure to the impact of changing interest rates and future cash outflows for interest.

As required under the expanded credit facility, we entered into an interest rate swap with Wells Fargo to hedge the first 40% of our interest rate exposure. The swap has a notional amount of \$18.0 million and a fixed rate of 4.88%. The swap is settled on the same day as the required monthly interest payments on the term loan and expires on June 29, 2018.

We followed the requirements of guidance primarily codified within Accounting Standards Codification ("ASC") Topic No. 815, "Derivatives and Hedging" ("ASC 815") pertaining to the accounting for derivatives and hedging activities. ASC 815 requires us to recognize all derivative instruments on our balance sheet at fair value. The related gains or losses on these transactions are deferred in stockholders' equity as a component of accumulated other comprehensive income or loss. These deferred gains and losses are recognized in income in the period in which the related items being hedged are recognized in interest expense. However, to the extent that the change in value of a derivative contract does not perfectly offset the change in the value of the items being hedged, that ineffective portion is immediately recognized in interest expense. Our interest rate hedge was designated as a cash flow hedge and is deemed to be effective at September 30, 2013 as the critical terms have not changed since inception.

We measure the value of the interest rate swap utilizing an income approach valuation technique, converting future amounts of cash flows to a single present value in order to obtain a transfer exit price within the bid and ask spread that is most representative of the fair value of our derivative instruments. This option-pricing technique utilizes a one-month LIBOR forward yield curve, obtained from an independent external service.

At September 30, 2013, the valuation of the interest rate swap resulted in the recognition of a swap liability totaling \$0.3 million, which is included in other accrued expenses on the balance sheet.

Accumulated other comprehensive income (loss)

Changes in accumulated other comprehensive income (loss), comprised entirely of changes in the fair value of our cash flow hedge as follows:

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Balance, beginning of period	—	—

Loss on cash flow hedge, net of tax <sup>(1)</sup>	(164	)	—
Balance, end of period	(164	)	—

<sup>(1)</sup>Loss on cash flow hedge is net of income taxes of \$94,000.

#### 10. Business Segments

As of September 30, 2013, we had three operating segments: hotels, franchise and entertainment. The “other” segment consists of 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

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exclusive of interest expense and income taxes; therefore, those two items have not been allocated to the segments. All balances have been presented after the elimination of inter-segment and intra-segment revenues and expenses.

Selected information with respect to continuing operations is provided below (in thousands):

	Three Months Ended		Nine Months Ended September	
	September 30,		30,	
	2013	2012	2013	2012
Revenues:				
Hotels	\$38,590	\$42,397	\$96,744	\$107,074
Franchise	2,368	1,555	5,574	3,953
Entertainment	1,623	1,456	6,774	6,356
Other	83	94	256	327
	\$42,664	\$45,502	\$109,348	\$117,710
Operating income (loss):				
Hotels	\$6,533	\$4,731	\$7,133	\$725
Franchise	493	325	363	433
Entertainment	70	(113	) (42	) (185