Red Lion Hotels CORP
Form 10-Q
November 05, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

ý 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

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

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 o	Accelerated filer ý
Non-accelerated filer o	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 ý

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

Table of Contents

TABLE OF CONTENTS

Table of Contents

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)	
ASSETS		
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
LIABILITIES		
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	—	—
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; 19,658,833 and 19,451,849 shares issued and outstanding	197	195

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.

Table of Contents

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)	—

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.

Table of Contents

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)

Net cash used in financing activities	(4,901)	(12,126)

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) - (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.

Table of Contents

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 Cavanaughs Hotels. In 1999, we acquired WestCoast Hotels, Inc., and rebranded our Cavanaughs 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.

Table of Contents

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;

Table of Contents

- 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.

Table of Contents

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)

10

Table of Contents

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

9 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.

Table of Contents

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 [1]	(164)	—
Balance, end of period	(164)	—

(1) 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

Table of Contents

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 September 30,		Nine Months Ended September 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)
Other	(3,072)	(2,036)	(7,350)	(6,140)
	$4,024	$2,907	$104	$(5,167)

	September 30, 2013	December 31, 2012
Identifiable assets:		
Hotels [1]	$201,607	$212,418
Franchise	9,591	8,994
Entertainment	4,781	5,976
Other [1]	39,800	33,554
	$255,779	$260,942

(1) Includes the identifiable assets of discontinued operations held for sale.

Table of Contents

11. Earnings (Loss) Per Share

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted net income (loss) per share computations for the three and nine months ended September 30, 2013 and 2012 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator - basic and diluted:				
Income (loss) from continuing operations	$1,456	$578	$(2,649)	$(6,654)
Less net income or loss attributable to noncontrolling interest	—	—	—	(7)
Income (loss) from discontinued operations	(229)	(1,484)	(441)	(4,390)
Net income (loss) attributable to Red Lion Hotels Corporation	$1,227	$(906)	$(3,090)	$(11,037)
Denominator:				
Weighted average shares - basic	19,631	19,366	19,538	19,294
Weighted average shares - diluted	19,672	19,438	19,538	19,294
Earnings (loss) per share attributable to Red Lion Hotels Corporation: 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)

For the three months ended September 30, 2013, 166,366 of the 167,607 options to purchase common shares and 305,739 of the 344,775 restricted stock units outstanding as of that date were considered antidilutive. For the three months ended September 30, 2012, 212,799 of the 229,696 options to purchase common shares outstanding as of that date were considered antidilutive, as were 271,495 of the 327,060 restricted stock units outstanding.

Due to the loss for the nine months ended September 30, 2013, all of the 167,607 options to purchase common shares and all of the 344,775 restricted stock units outstanding as of that date were considered antidilutive. For the nine months ended September 30, 2012, all of the 229,696 options to purchase common shares and all of the 327,060 restricted stock units outstanding were considered antidilutive due to losses in the period.

12. Income Taxes

We make estimates and judgments in determining income tax expense or benefit for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which typically arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, and the determination of tax credits and other items that impact our income tax expense or benefit.

At September 30, 2013 we were not able to reliably estimate the full year effective tax rate. Accordingly, we have recognized interim income tax benefit using the discrete method based on actual results for the nine months ended September 30, 2013. The effective tax rates from continuing operations at September 30, 2013 and 2012 were 29.8% and 36.6%, respectively. The difference between the effective tax rates and the statutory rate of 34.0% for the periods is primarily driven by the impact of state income taxes, federal tax credits, and non-deductible expenses. The effective tax rate from continuing operations at September 30, 2013 was also impacted by the valuation allowance recorded during the third quarter of 2013 to reflect a change in our assessment of our ability to utilize certain California

Enterprise Zone ("EZ") credits prior to their expiration.

We recognize the financial statement effect of a tax position when, based on the technical merits of the uncertain tax position, it is more likely than not to be sustained on a review by taxing authorities. These estimates are based on judgments made with currently available information. We review these estimates and make changes to recorded amounts of uncertain positions as facts and circumstances warrant. We had no material uncertain tax positions at September 30, 2013 and do not anticipate a significant change in any unrecognized tax benefits over the next 12 months. Accordingly, we have not provided for any unrecognized tax

Table of Contents

benefits or related interest and penalties. With limited exception, we are no longer subject to U.S. federal, state and local income tax examinations by taxing authorities for years prior to 2008.

Based on our current assessment of future taxable income, including scheduling of the reversal of our taxable temporary differences, we anticipate that it is more likely than not that we will generate sufficient taxable income to realize our net operating losses and federal tax credit carryovers, and therefore we did not record a valuation allowance against these deferred tax assets as of September 30, 2013. On July 11, 2013, the State of California signed into law Assembly Bill 93, which phases out and replaces California EZ tax credits with a new economic development program. The elimination of the current California EZ credit program will be effective on January 1, 2014. California EZ credits generated before January 1, 2014 will have a ten-year carryforward period. We believe that it is more likely than not that we will not be able to utilize any of our California EZ credits prior to the expiration of the carryforward period. Therefore, we recorded a valuation allowance of $0.4 million in the third quarter of 2013, which is the tax impact of the credits, net of the federal tax benefit.

13. Stock Based Compensation

The 2006 Stock Incentive Plan authorizes the grant or issuance of various option and other awards including restricted stock units and other stock-based compensation. The plan was approved by our shareholders and allowed awards of 2.0 million shares, subject to adjustments for stock splits, stock dividends and similar events. As of September 30, 2013, there were 627,326 shares of common stock available for issuance pursuant to future stock option grants or other awards under the 2006 plan.

In the nine months ended September 30, 2013, we recognized no compensation expense related to options, compared to approximately $32,000 during the same period in 2012.

A summary of stock option activity for the nine months ended September 30, 2013, is as follows:

	Number of Shares	Weighted Average Exercise Price
Balance, January 1, 2013	172,814	$9.41
Options granted	—	$—
Options exercised	(2,000)	$7.82
Options forfeited	(3,207)	$7.62
Balance, September 30, 2013	167,607	$9.49
Exercisable, September 30, 2013	166,887	$9.51

Additional information regarding stock options outstanding and exercisable as of September 30, 2013, 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]	Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value[1]
$5.10	5,000	1.14	2014	$5.10	$850	5,000	$5.10	$850
$7.10 - $7.46	10,881	3.31	2015-2020	7.36	—	10,161	7.38	—
$8.74 - $8.80	111,231	4.58	2018	8.76	—	111,231	8.76	—
$12.21-$13.00	40,495	3.39	2016-2017	12.62	—	40,495	12.62	—
	167,607	4.11	2014-2020	$9.49	$850	166,887	$9.50	$850

(1) The aggregate intrinsic value is before applicable income taxes and represents the amount option recipients would have received if all options had been fully vested and exercised on the last trading day of the first nine months of 2013, or September 30, 2013, based upon our closing stock price on that date of $5.27.

As of September 30, 2013 and 2012, there were 344,775 and 327,060 unvested restricted stock units outstanding, respectively. Since we began issuing restricted stock units, approximately 14.6% of total units granted have been forfeited. In the third quarter and first nine months of 2013, we recognized approximately $0.7 million and $1.1 million in compensation expense related to restricted stock units compared to $0.2 million and $0.6 million in the comparable periods in 2012. Included in expense for the three and nine months ended September 30, 2013 is approximately $0.4 million of expense related to the accelerated vesting of restricted stock units associated with the departure of our former CEO. As the restricted stock units vest, we expect to recognize

Table of Contents

approximately $2.1 million in additional compensation expense over a weighted average period of 35 months, including $0.2 million during the remainder of 2013.

A summary of restricted stock unit activity for the nine months ended September 30, 2013, is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2013	323,561	$7.75
Granted	218,356	$6.77
Vested	(177,127)	$6.46
Forfeited	(20,015)	$7.82
Balance, September 30, 2013	344,775	$7.33

In January 2008, we adopted the 2008 employee stock purchase plan (the “2008 ESPP”) upon the expiration of its predecessor plan. Under the 2008 ESPP, a total of 300,000 shares of common stock are 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, or more than 10,000 shares during any six-month purchase period under the plan. 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 2013, respectively, there were 7,276 and 6,489 shares issued to participants under the terms of the plan.

14. Fair Value of Financial Instruments

Applicable accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We measure our assets and liabilities using inputs from the following three levels of the fair value hierarchy:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect assumptions about what factors market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

Estimated fair values of financial instruments (in thousands) are shown in the table below. The carrying amounts for cash and cash equivalents, accounts receivable and current liabilities are reasonable estimates of their fair values. The carrying amounts of our current notes receivable are reasonable estimates of their fair values due to the short nature of the loans (they are expected to be satisfied within a year). We estimate the fair value of our interest rate swap using standard calculations that use as their basis readily available observable market parameters, which are Level 2 inputs. We estimate the fair value of our long-term debt, excluding leases, using expected future payments discounted at risk-adjusted rates, both of which are Level 3 inputs. The debentures are valued at the closing price on September 30, 2013, of the underlying trust preferred securities on the New York Stock Exchange, which was a directly observable Level 1 input. The fair values provided below are not necessarily indicative of the amounts we 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.

Table of Contents

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents and restricted cash[1]	$27,308	$27,308	$8,894	$8,894
Accounts receivable[1]	$5,565	$5,565	$5,774	$5,774
Current notes receivable	$597	$597	$4,112	$4,112
Notes receivable, long term	$4,407	$4,407	$2,902	$2,902
Financial liabilities:				
Current liabilities, excluding debt and interest rate swap[1]	$22,687	$22,687	$18,195	$18,195
Interest rate swap	$258	$258	$—	$—
Debt, excluding debentures, net of discount	$44,529	$45,022	$49,178	$49,362
Debentures	$30,825	$31,841	$30,825	$31,363

(1) Includes the cash, accounts receivable, and current liabilities of discontinued operations held for sale as of December 31, 2012.

15. Commitments and Contingencies

At any given time we are subject to claims and actions incidental to the operations of our business. Based on information currently available, we do not expect that any sums we may receive or have to pay in connection with any legal proceeding would have a materially adverse effect on our consolidated financial position or net cash flow.

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 report, the are forward-looking statements. Many possible events or factors, including those discussed in “Risk Factors” under Item 1A of our annual report filed with the Securities and Exchange Commission (“SEC”) on Form 10-K for the year ended December 31, 2012, 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 "RLH" refer to Red Lion Hotels Corporation and, as the context requires, all of its wholly owned subsidiaries, including Red Lion Hotels Holdings, Inc., Red Lion Hotels Franchising, Inc. and Red Lion Hotels Limited Partnership. "Red Lion" refers to the Red Lion brand. The terms "the network" or "network of hotels" refer 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, 2012, 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 hotels under our proprietary brands, including Red Lion Hotels, Red Lion Inns & Suites and Leo Hotel Collection (the “Red Lion Brands”). Established over 30 years ago, the Red Lion brand is

regionally recognized and is particularly well known in the western United States, where our hotels are located. The Red Lion brand is typically associated with midscale full and select service hotels.

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 hotels with 3,256 rooms and 241,000 square feet of meeting space.

Table of Contents

A summary of our properties is provided below:

	Hotels	Total Available Rooms	Meeting Space (sq. ft.)
Red Lion Owned and Leased Hotels	25	4,766	230,305
Red Lion Franchised Hotels	25	4,137	231,830
Leo Hotel Collection	2	3,256	241,000
Total	52	12,159	703,135

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. As of September 30, 2013, we operated 25 hotels, of which 19 are wholly-owned and six are leased.

- The franchise segment is engaged primarily in licensing the Red Lion Brands to franchisees. This segment generates revenue from franchise fees that are typically based on a percent of room revenue and are charged to hotel owners in exchange for the use of our brand and access to our central services programs. These programs include our 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 promotion and presentation of entertainment productions under the operations of WestCoast Entertainment and from ticketing services under the operations of TicketsWest. The ticketing service offers online ticket sales, ticketing inventory management systems, call center services, and outlet/electronic distributions for event locations.

Our remaining activities, none of which constitutes a reportable segment, have been aggregated into "other".

Executive Summary

Our company strategy is to grow the Red Lion Brands and profitability through (1) growth in the franchise business aided by the segmentation of our brands to add clear differentiation between Red Lion Hotels, Red Lion Inns & Suites and Leo Hotel Collection products; (2) sales and marketing initiatives and (3) leveraging our owned assets to refresh our hotels and strengthen the balance sheet.

We believe franchising represents a profitable non-capital intensive growth opportunity. Our strategy is to commit resources to continue to grow the Red Lion Brands in the coming years through franchising. By segmenting our brand with clear distinctions between each offering of full service Red Lion Hotel, limited service Red Lion Inns & Suites and the unique, boutique or destination experience of the Leo Hotel collection, we are uniquely positioned to provide an appealing alternative for a variety of owners.

We have invested in sales and marketing talent and technology to improve our ability to manage the various channels which drive occupancy and rate at our hotels including transient, group and preferred corporate business. These investments include the redesign of the redlion.com website and booking engine. Our initiatives also include individual hotel websites which provide additional sales resources for expanding market reach and driving business in our owned and franchised properties. We have refreshed the look and feel of our logo and our marks, which will be reflected in printed and online collateral, advertisements and social media.

We also used proceeds from strategic asset sales (a program of selective reduction in asset ownership) to reduce debt and make improvements to our owned and leased hotels. We are committed to keeping our properties well maintained and attractive to our customers in order to enhance our competitiveness within the industry and keep our hotels properly positioned in their markets.

Our current hotels are primarily located in 10 Western states, with the majority in secondary and tertiary markets. We believe the current operating environment provides us the opportunity to grow our business through franchising as hotel owners seek to improve profitability through an affiliation with a regional hotel brand or franchise distribution network. We additionally believe we can grow our business through sales and marketing initiatives; including a focus on the local experience in our markets, and leveraging our owned assets to refresh our hotels to meet customer's current expectations and strengthen our balance sheet.

Table of Contents

We will continue to build on the strength and recognition of the Red Lion Brands for growth and achievement of long-term profitability and returns to shareholders.

While our goal is to deliver improved long-term profitability through the above-described initiatives, there can be no assurance our results of operations will improve.

Revenue per available room ("RevPAR") for owned and leased hotels on a comparable basis from continuing operations increased 2.8% in the third quarter of 2013 from the third quarter of 2012. Comparable occupancy from continuing operations decreased 100 basis points in the third quarter of 2013 from the third quarter of 2012. Comparable Average Daily Rate ("ADR"), from continuing operations, increased 4.2% in the third quarter of 2013 to $93.85 from $90.09 in the third quarter of 2012. Average occupancy, ADR and RevPAR statistics are provided below on a comparable basis from continuing operations.

	For the three months ended September 30,							
	2013				2012			
	Average Occupancy		ADR	RevPAR	Average Occupancy		ADR	RevPAR
Owned and Leased Hotels	75.5	%	$93.85	$70.86	76.5	%	$90.09	$68.92
Franchised Hotels	71.7	%	$92.31	$66.23	67.9	%	$89.20	$60.53
Total System Wide	74.0	%	$93.24	$68.97	73.0	%	$89.75	$65.50
Change from prior comparative period:								
Owned and Leased Hotels	(100)	bps	4.2 %	2.8 %				
Franchised Hotels	380	bps	3.5 %	9.4 %				
Total System Wide[1]	100	bps	3.9 %	5.3 %				

	For the nine months ended September 30, 2013							
	2013				2012			
	Average Occupancy		ADR	RevPAR	Average Occupancy		ADR	RevPAR
Owned and Leased Hotels	65.5	%	$88.31	$57.88	66.5	%	$84.78	$56.34
Franchised Hotels	59.7	%	$88.05	$52.58	58.1	%	$84.89	$49.32
Total System Wide	63.2	%	$88.21	$55.72	63.1	%	$84.82	$53.48
Change from prior comparative period:								
Owned and Leased Hotels	(100)	bps	4.2 %	2.7 %				
Franchised Hotels	160	bps	3.7 %	6.6 %				
Total System Wide[1]	10	bps	4.0 %	4.2 %				

(1) Includes all hotels owned, leased and franchised, presented on a comparable basis. The Red Lion Hotel Medford in Medford, Oregon ("Medford Property") is excluded as it was listed as a discontinued operation prior to being sold in August 2013. The Red Lion Colonial Hotel in Helena, Montana ("Helena property"), which was sold in July 2012, the Red Lion Hotel Denver Southeast in Aurora, Colorado ("Denver Southeast property"), which was sold in October 2012, the Red Lion Hotel Missoula, in Missoula, Montana ("Missoula property"), which was sold in February 2013, and the Red Lion Hotel Pendleton in Pendleton, Oregon ("Pendleton property"), which was sold in April 2013, have been excluded from the owned and leased hotel statistics and included in the franchised statistics as we maintained franchise agreements on those four properties.

Average occupancy, ADR and RevPAR, as defined below, are widely used in the hospitality industry and appear throughout this document as important measures to the discussion of our operating performance.

- Average occupancy represents total paid rooms occupied divided by total available rooms. We use average occupancy as a measure of the utilization of capacity in our network of hotels.
- RevPAR represents total room and related revenues divided by total available rooms. We use RevPAR as a measure of performance yield in our network of hotels.

Table of Contents

- ADR represents total room revenues divided by the total number of paid rooms occupied by hotel guests. We use ADR as a measure of room pricing in our network of hotels.
- Total available rooms represents the number of rooms available multiplied by the number of days in the reported period. We use total available rooms as a measure of capacity in our network of hotels and do not adjust total available rooms for rooms temporarily out of service for remodel or other short-term periods.
- Comparable hotels are hotels that have been owned, leased or franchised by us and were in operation throughout each of the full periods presented, other than hotels classified as discontinued operations.

Throughout this document and unless otherwise stated, RevPAR, ADR and average occupancy statistics are calculated using statistics for comparable hotels. Some of the terms used in this report, such as "full service" and "midscale" are consistent with those used by Smith Travel Research, an independent statistical research service that specializes in the lodging industry. Our hotels are typically classified by Smith Travel Research as midscale with food and beverage.

Results of Operations

Our reported numbers for the periods presented in this report reflect results of the Helena and Denver Southeast properties for part of 2012 but not the full year, as the sales of the properties closed on July 30, 2012 and October 24, 2012, respectively. In addition, our reported numbers for the periods presented reflect the results of the Missoula property through February 20, 2013, and the results of the Pendleton property through April 4, 2013, when the sales of those properties closed. These properties are reported in continuing operations since we have significant continuing involvement in the operations of these properties that now operate as franchised hotels. In order to help investors distinguish changes from results of continuing operations versus changes due to the sales of these hotel properties, we will discuss operating results from continuing operations as reported and also discuss certain operating results and data for periods included in the report on a comparable hotel basis. Comparable hotels are hotels that have been owned, leased or franchised by us and were in operation throughout each of the full periods presented, other than hotels classified as discontinued operations. Therefore, the Helena, Denver Southeast, Missoula and Pendleton properties are excluded from the comparable owned and leased hotel statistics and operating results.

During the third quarter of 2013 and 2012, we reported income from continuing operations of $1.5 million, or $0.07 per diluted share, and $0.6 million, or $0.03 per diluted share, respectively. The third quarter of 2012 included a $1.9 million pre-tax impairment charge on the Pendleton property. For the third quarter of 2013 earnings before interest, taxes, depreciation and amortization (“EBITDA”) from continuing operations was $7.7 million, compared to EBITDA of $6.7 million for the third quarter of 2012.

For the first nine months of 2013 and 2012, we reported losses from continuing operations of $2.6 million, or $0.14 per share, and $6.7 million, or $0.34 per share, respectively. The nine months ended September 30, 2012 included aggregate pre-tax impairment charges on the Helena, Denver Southeast, and Missoula properties of $8.8 million. For the first nine months of 2013, EBITDA from continuing operations was $11.3 million, compared to EBITDA of $6.4 million for the first nine months of 2012, which includes the $8.8 million in pre-tax impairment charges.

Table of Contents

A summary of our consolidated statements of comprehensive (loss) income is provided below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total revenue	$42,664	$45,502	$109,348	$117,710
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)
Income (loss) from discontinued operations, net of tax	(229)	(1,484)	(441)	(4,390)
Net income (loss)	$1,227	$(906)	$(3,090)	$(11,044)
Comprehensive income (loss) attributable to Red Lion Hotels Corporation	$1,197	$(906)	$(3,254)	$(11,037)
Non-GAAP data:				
EBITDA	$7,324	$4,478	$10,659	$136
EBITDA from continuing operations	$7,683	$6,727	$11,344	$6,373

EBITDA represents net income (loss) attributable to Red Lion Hotels Corporation before interest expense, income tax expense (benefit) 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, ongoing operations. We believe it is a complement to net income (loss) attributable to Red Lion Hotels Corporation and other financial performance measures. EBITDA is not intended to represent net income (loss) attributable to Red Lion Hotels Corporation 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 (loss), cash flows from operations or any other measure of performance prescribed by GAAP.

We use EBITDA to measure financial performance 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 tax 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 (loss) 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 indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
EBITDA from continuing operations	$7,683	$6,727	$11,344	$6,373
Income tax (expense) benefit - continuing operations	(1,414)	(624)	1,127	3,827
Interest expense - continuing operations	(1,252)	(1,751)	(4,281)	(5,388)
Depreciation and amortization - continuing operations	(3,561)	(3,774)	(10,839)	(11,459)
Net income (loss) attributable to Red Lion Hotels Corporation from continuing operations	$1,456	$578	$(2,649)	$(6,647)
Income (loss) of discontinued operations, net of tax	(229)	(1,484)	(441)	(4,390)
Net income (loss) attributable to Red Lion Hotels Corporation	$1,227	$(906)	$(3,090)	$(11,037)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
EBITDA	$7,324	$4,478	$10,659	$136
Income tax (expense) benefit	(1,284)	219	1,376	6,318
Interest expense	(1,252)	(1,751)	(4,281)	(5,388)
Depreciation and amortization	(3,561)	(3,852)	(10,844)	(12,103)
Net income (loss) attributable to Red Lion Hotels Corporation	$1,227	$(906)	$(3,090)	$(11,037)

Revenue

A breakdown of our revenues from continuing operations for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands):

Revenue From Continuing Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Hotels:				
Rooms	$31,062	$33,614	$75,605	$81,847
Food and beverage	6,545	7,635	18,997	22,764
Other department	983	1,148	2,142	2,463
Total hotel segment revenue	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 Operating Revenue	$42,664	$45,502	$109,348	$117,710

Our reported hotel segment numbers for the periods presented in this report reflect the results of the Helena property and Denver Southeast property for the three and nine months ended September 30, 2012, but not the same periods in 2013, as the sale of those properties closed on July 30, 2012 and October 24, 2012, respectively. In addition, our reported hotel segment numbers for the periods presented reflect the results of the Missoula and Pendleton properties for three and nine months ended September 30, 2012, but not the entire three and nine months ended September 30, 2013 as the sale of those properties closed on February 20, 2013 and April 4, 2013, respectively. In order to help investors distinguish changes in our results from continuing operations versus changes due to the sale of these

properties, we will discuss our operating results as reported and also on a comparable basis to exclude the results of these sold properties from the hotel segment.

Table of Contents

A breakdown of our comparable hotel revenues for the three and nine months ended September 30, 2013 and 2012 is as follows:

Comparable Hotel Revenue From Continuing Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Room revenue from continuing operations	$31,062	$33,614	75,605	81,847
less: room revenue from Helena, Denver Southeast, Missoula and Pendleton properties	—	(3,394)	(308)	(8,269)
Comparable room revenue	$31,062	$30,220	$75,297	$73,578
Food and beverage revenue from continuing operations	6,545	7,635	18,997	22,764
less: food and beverage revenue from Helena, Denver Southeast, Missoula and Pendleton properties	—	(969)	(59)	(2,859)
Comparable food and beverage revenue	$6,545	$6,666	$18,938	$19,905
Other hotel revenue from continuing operations	983	1,148	2,142	2,463
less: other hotel revenue from Helena, Denver Southeast, Missoula and Pendleton properties	—	(233)	(6)	(662)
Comparable other hotel revenue	$983	$915	$2,136	$1,801
Total hotel revenue from continuing operations	38,590	42,397	96,744	107,074
less: Total hotel revenue from Helena, Denver Southeast, Missoula and Pendleton properties	$—	$(4,596)	$(373)	$(11,790)
Comparable total hotel revenue	$38,590	$37,801	$96,371	$95,284

We utilize comparable hotel revenue from continuing operations 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, ongoing operations. We believe it is a complement to reported revenue and other financial performance measures. Comparable hotel revenue from continuing operations is not intended to represent reported hotel revenue as defined by GAAP, and such information should not be considered as an alternative to reported hotel revenue or any other measure of performance prescribed by GAAP. Comparable hotel revenue from continuing operations represents reported hotel segment revenue less the impact of the Helena, Denver Southeast, Missoula and Pendleton properties' revenue.

Three months ended September 30, 2013 and 2012

During the third quarter of 2013, revenue from the hotel segment decreased $3.8 million or 9.0% from the third quarter of 2012. The third quarter of 2012 included revenue from the Helena, Denver Southeast, Missoula and Pendleton properties, whereas the third quarter of 2013 did not include any revenue from the Helena, Denver Southeast, Missoula and Pendleton properties due to their sale in 2012 and the first and second quarters of 2013. On a comparable basis, excluding the results of the Helena, Denver Southeast, Missoula and Pendleton properties, total revenue from the hotel segment increased $0.8 million or 2.1% in the third quarter of 2013 compared to the third quarter of 2012. Comparable room revenue from owned and leased hotels of $31.1 million increased $0.8 million over the same periods. Comparable ADR increased by 4.2% to $93.85, which drove a RevPAR increase of 2.8% to $70.86 for the third quarter of 2013. Our strategy has been to focus on rate growth, which has resulted in a slight decline in comparable occupancy from 76.5% to 75.5%.

Revenue from our franchise segment increased $0.8 million to $2.4 million in the third quarter of 2013 compared to the third quarter of 2012. This was driven by the increase in the number of franchised hotels in the system and contractual increases in rate on existing franchised hotels. Revenue in the entertainment segment increased to $1.6 million in the third quarter of 2013 compared to $1.5 million in the third quarter of 2012, primarily due to an increase in ticketing demand.

Table of Contents

Nine months ended September 30, 2013 and 2012

During the first nine months of 2013, revenue from the hotel segment decreased $10.3 million or 9.6% compared to the first nine months of 2012. The first nine months of 2012 included revenue from the Helena, Denver Southeast, Missoula and Pendleton properties, whereas the first nine months of 2013 did not include any revenue from the Helena and Denver Southeast properties due to their sale in 2012. Additionally, the Missoula property was sold in February 2013 and the Pendleton property in April 2013. On a comparable basis, excluding the results of the Helena, Denver Southeast, Missoula and Pendleton properties, revenue from the hotel segment increased $1.1 million or 1.1% in the first nine months of 2013 compared to the first nine months of 2012. This comparable increase was primarily driven by a 4.2% increase in ADR which was predominantly driven by higher rates in the transient segment and partially offset by lower food and beverage revenues.

Revenue from our franchise segment increased $1.6 million to $5.6 million in the first nine months of 2013 compared to the first nine months of 2012. This was driven by the increase in the number of franchised hotels in the system and contractual increases in rate on existing franchised hotels. Revenue in the entertainment segment increased to $6.8 million in the first nine months of 2013 compared to $6.4 million in the first nine months of 2012. This is primarily due to an increase in the total number of show nights for our productions and an increase in ticket demand for entertainment events in the markets we serve.

Operating Expenses

Operating expenses generally include direct operating expenses for each of the operating segments, depreciation and amortization, hotel facility and land lease expense, gain or loss on asset dispositions and undistributed corporate expenses. Total operating expenses during the third quarter of 2013 compared to the third quarter of 2012 decreased $4.0 million. The sales of the Helena, Denver Southeast, Missoula and Pendleton properties are the primary driver of the overall decline in reported hotel expenses. In addition, during the third quarter of 2012, operating expenses included a pre-tax impairment charge of $1.9 million on our Pendleton property. During the first nine months of 2013, total operating expenses decreased $13.6 million compared to the first nine months of 2012. Operating expenses during the first nine months of 2012 included $8.8 million in pre-tax impairment charges on our Helena, Denver Southeast, Missoula and Pendleton properties, which is the primary driver of the variance.

Table of Contents

A breakdown of our operating expenses and direct margin by segment as reported for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands):

Operating Expenses From Continuing Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
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
Hotels revenue - continuing[1]	$38,590	$42,397	$96,744	$107,074
Direct margin [2]	$11,148	$11,073	$20,518	$22,878
Direct margin %	28.9 %	26.1 %	21.2 %	21.4 %
Franchise revenue [1]	$2,368	$1,555	$5,574	$3,953
Direct margin [2]	$506	$336	$400	$466
Direct margin %	21.4 %	21.6 %	7.2 %	11.8 %
Entertainment revenue	$1,623	$1,456	$6,774	$6,356
Direct margin [2]	$165	$(19)	$216	$111
Direct margin %	10.2 %	(1.3)%	3.2 %	1.7 %
Other revenue - continuing [1]	$83	$94	$256	$327
Direct margin [2]	$(48)	$(107)	$(115)	$(274)
Direct margin %	(57.8)%	(113.8)%	(44.9)%	(83.8)%

(1) Excludes operations classified as discontinued.
(2) Revenues less direct operating expenses.

Our reported hotel segment numbers for the periods presented in this report reflect the results of the Helena property and Denver Southeast property for the three and nine months ended September 30, 2012, but not the same periods in 2013, as the sales of those properties closed on July 30, 2012 and October 24, 2012, respectively. In addition, our reported hotel segment numbers for the periods presented reflect the results of the Missoula and Pendleton properties for the three and nine months ended September 30, 2012, but not the three and nine months ended September 30, 2013 as the sale of those properties closed on February 20, 2013 and April 4, 2013, respectively. In order to help investors distinguish changes in our results from continuing operations versus changes due to the sale of these properties, we will discuss our operating results as reported and also on a comparable basis to exclude the results of these sold properties from the hotel segment.

Table of Contents

A breakdown of our comparable hotel operating expenses and direct margin for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands):

Comparable Hotel Operating Expenses From Continuing Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Hotel operating expenses from continuing operations	27,442	31,324	76,226	84,196
less: Hotel operating expenses from Helena, Denver Southeast, Missoula and Pendleton properties	—	(3,622)	(718)	(10,302)
Comparable hotel operating expenses	$27,442	$27,702	$75,508	$73,894
Hotel revenue from continuing operations	38,590	42,397	96,744	107,074
less: Hotel revenue from Helena, Denver Southeast, Missoula and Pendleton properties	—	(4,596)	(373)	(11,790)
Comparable hotel revenue	$38,590	$37,801	$96,371	$95,284
Hotel direct operating margin from continuing operations	11,148	11,073	20,518	22,878
less: Hotel direct operation margin from Helena, Denver Southeast, Missoula and Pendleton properties	—	(974)	345	(1,488)
Comparable hotel direct margin	$11,148	$10,099	$20,863	$21,390
Comparable hotel direct margin %	28.9 %	26.7 %	21.6 %	22.4 %

We utilize comparable hotel operating expense from continuing operations 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, ongoing operations. We believe it is a complement to reported operating expense and other financial performance measures. Comparable hotel operating expense from continuing operations is not intended to represent reported hotel operating expense as defined by GAAP, and such information should not be considered as an alternative to reported hotel operating expense or any other measure of performance prescribed by GAAP. Comparable hotel operating expense from continuing operations represents reported hotel segment operating expenses less the impact of the Helena, Denver Southeast, Missoula and Pendleton properties' operating expense.

Three months ended September 30, 2013 and 2012

Direct hotel expenses as reported were $27.4 million in the third quarter of 2013 compared to $31.3 million in the third quarter of 2012. The primary driver of the decline was the sale of the Helena, Denver Southeast, Missoula and Pendleton properties. The prior year's third quarter included expense for the full period for the Denver Southeast, Missoula and Pendleton properties and one month of expenses for the Helena property whereas the third quarter of 2013 included no expenses for these properties. On a comparable basis, direct hotel expenses were $27.4 million in the third quarter of 2013 compared to $27.7 million in the third quarter of 2012, representing a 0.9% decrease. On a comparable basis, the hotel segment had a direct margin of 28.9% in the third quarter of 2013 compared to 26.7% during the third quarter of 2012. The increase in margin was primarily driven by growth in our comparable average daily rate.

Direct expenses for the franchise segment in the third quarter of 2013 increased by $0.6 million compared to the third quarter of 2012, primarily driven by increased marketing expense and costs to support our franchise growth initiative.

Direct expenses for the entertainment segment in the third quarter of 2013 were flat compared to the third quarter of 2012.

Hotel facility and land lease costs increased $0.1 million to $1.3 million in the third quarter of 2013 compared to the third quarter of 2012. Our lease costs increased following the sale of the Kalispell Mall property in the second quarter of 2013 due to a lease agreement that was entered into for the continued operation of the hotel.

Undistributed corporate expenses increased $1.2 million to $2.8 million in the third quarter of 2013 compared to the third quarter of 2012. The primary drivers of the increased expenses were transition expenses related to leadership changes, including costs related to the separation of the former CEO and COO, increased board of directors fees and the interim CEO compensation. Undistributed corporate expenses include general and administrative charges such as corporate payroll, stock compensation expense, director's fees, legal expenses, charitable contributions, director and officers insurance, bank service charges and outside

Table of Contents

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, such as accounting, human resources and information technology, are distributed and included in direct expenses of the segments to which they are allocated.

Nine months ended September 30, 2013 and 2012

Direct hotel expenses as reported were $76.2 million in the first nine months of 2013 compared to $84.2 million in the first nine months of 2012. The sales of the Helena, Denver Southeast, Missoula, and Pendleton properties were the primary driver of the overall decline in reported hotel expenses. On a comparable basis, direct hotel expenses were $75.5 million in the first nine months of 2013 compared to $73.9 million in the first nine months of 2012, representing a 2.2% increase. The increase was driven primarily by higher sales and marketing costs and additional workers compensation expense that was recognized in the first quarter of 2013. Additionally, the first nine months of 2012 benefited from labor cost adjustments that did not reoccur in the first nine months of 2013. On a comparable basis, the hotel segment had a direct margin of 21.6% in the first nine months of 2013 compared to 22.4% for the first nine months of 2012. The decline in margin was primarily driven by the timing of sales and marketing initiatives, declines in food and beverage sales and non-recurring labor cost adjustments mentioned above.

Direct expenses for the franchise segment in the first nine months of 2013 increased by $1.7 million to $5.2 million compared to the first nine months of 2012, primarily driven by marketing expense and increased costs to support our franchise growth initiative. Direct expenses for the entertainment segment in the first nine months of 2013 increased by $0.3 million compared to the first nine months of 2012 primarily due to the timing and mix of shows and events.

Depreciation and amortization expenses decreased $0.6 million in the first nine months of 2013 compared to the first nine months of 2012. The primary driver of the variance is the elimination of depreciation on the properties sold. See Note 5 of Condensed Notes to Consolidated Financial Statements.

Hotel facility and land lease costs increased $0.2 million to $3.6 million in the first nine months of 2013 compared to the first nine months of 2012. Our lease costs increased following the sale of the Kalispell Mall property in the second quarter of 2013 due to a lease agreement that was entered into for the continued operation of the hotel.

During the first nine months of 2012, we recorded pre-tax asset impairment charges of $8.8 million in continuing operations related to our Helena, Denver Southeast, Missoula and Pendleton properties, which were classified as held for sale. The carrying values of these hotels were adjusted to their estimated fair value less costs to sell based upon indicators received during the marketing process or their listing price. There were no such impairments recorded in 2013.

Undistributed corporate expenses increased by $1.6 million in the first nine months of 2013 compared to the first nine months of 2012. The increase primarily relates to costs of leadership changes, legal expense, board of director fees and higher directors and officers insurance premiums. Undistributed corporate expenses include general and administrative charges such as corporate payroll, stock compensation expense, director's fees, 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, such as accounting, human resources and information technology, are distributed and included in direct expenses of the segments to which they are allocated.

Income Taxes

During the third quarter of 2013, we reported income tax expense from continuing operations of $1.4 million compared to an income tax expense from continuing operations of $0.6 million during the third quarter of 2012. The difference is due to the increase in income from continuing operations and a valuation allowance recorded in the third quarter of 2013, discussed below.

During the first nine months of 2013, we reported an income tax benefit from continuing operations of $1.1 million compared to an income tax benefit from continuing operations of $3.8 million during the first nine months of 2012. The difference is due to the decrease in the loss from continuing operations during the first nine months of 2013 partially offset by a valuation allowance recorded in 2013, discussed below.

We make estimates and judgments in determining income tax expense or benefit for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which typically arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, and in the determination of tax credits and other items that impact our income tax expense or benefit.

Table of Contents

Based on our current assessment of future taxable income, including scheduling of the reversal of our taxable temporary differences, we anticipate that it is more likely than not that we will generate sufficient taxable income to realize our net operating losses and federal tax credit carryovers, and therefore we did not record a valuation allowance against these deferred tax assets as of September 30, 2013. On July 11, 2013, the State of California signed into law Assembly Bill 93, which phases out and replaces California Enterprise Zone ("EZ") tax credits with a new economic development program. The elimination of the current California EZ credit program will be effective on January 1, 2014. California EZ credits generated before January 1, 2014 will have a ten year carryforward period. We believe that it is more likely than not that we will not be able to utilize any of our California EZ credits prior to the expiration of the carryforward period. Therefore, we recorded a valuation allowance of $0.4 million in the third quarter of 2013 which is the tax impact of the credits, net of the federal tax benefit.

Liquidity and Capital Resources

As of September 30, 2013, we had total long term debt maturing within one year of $3.0 million. This is the current portion of a term loan from Wells Fargo Bank, National Association ("Wells Fargo") with a total outstanding balance of $45 million, which matures on June 30, 2018. Our current assets at September 30, 2013 exceeded our current liabilities, by $13.1 million.

During the quarter ended June 30, 2013, we entered into an agreement with 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 million, with $38.2 million used to refinance other 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. See Note 8 of Condensed Notes to Consolidated Financial Statements for additional information.

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 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. As a result, interest on 40% of the term loan is effectively fixed at 4.88%.

- 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.

- The credit 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

We can access up to $10 million on our current revolving line of credit, a portion of which supports outstanding letters of credit. The revolving line of credit, which is subject to certain financial covenants, allows us to fund operating needs and may be limited based on a formula relating to the trailing twelve-month consolidated net income of the hotel properties collateralizing the facility. We had no amounts drawn on the revolving line of credit at either September 30, 2013 or the date of filing this Form 10-Q. We continue to be in compliance with our debt covenants, to generate positive cash flow from operations and to have adequate liquidity to fund our ongoing operating activities; however there can be no assurance that we will be able to repay or refinance our debts when they mature or invest in our hotels to remain competitive at our current rates.

Table of Contents

We are committed to keeping our properties well-maintained and attractive to our customers in order to enhance our competitiveness within the industry and keep our hotels in the midscale category. This requires ongoing access to capital for replacement of outdated furnishings as well as for facility repair, modernization and renovation. Over the last four to five years, our levels of capital expenditures for these purposes have been lower than normal due to the general economic conditions impacting our industry. As a result, we will need to invest significant amounts of capital in our hotels in the next few years in order to support the room rates that we have historically charged.

We may seek to raise additional funds through public or private financings, strategic relationships, sales of assets or other arrangements. We cannot assure that such funds, if needed, will be available on terms attractive to us, or at all. If we sell additional assets, these sales may result in future impairments or losses on the final sale. Finally, any additional equity financings may be dilutive to shareholders and debt financing, if available, may involve covenants that place substantial restrictions on our business. As described above, additional principal payments will be required on our Wells Fargo term loan if a property securing that loan is sold. Our failure to secure funding as and when needed could have a material adverse impact on our financial condition and our ability to pursue business strategies.

At September 30, 2013 total outstanding debt was $75.4 million, net of discount. Included in that amount is $30.8 million of debentures due to Red Lion Hotels Capital Trust. Our average pre-tax interest rate on debt was 6.3% at September 30, 2013, of which 64.4% was fixed at an average rate of 7.8% and 35.6% was at an average variable rate of 3.5%.

Operating Activities

Net cash provided by operating activities during the first nine months of 2013 totaled $14.5 million, a $3.9 million decrease from net cash provided by operating activities of $18.4 million during the first nine months of 2012. The primary drivers of the decrease are the timing of accounts payable and accrued expenses, partially offset by the collection of restricted cash in 2013.

Investing Activities

Net cash provided by investing activities totaled $11.3 million during the first nine months of 2013 compared to net cash provided by investing activities of $5.9 million during the first nine months of 2012. The primary drivers of the 2013 increase were the higher proceeds received from the sale of our assets held for sale of $3.9 million and the collection of notes receivable of $3.7 million partially offset by the increase of property and equipment purchased in 2013 over 2012 of $2.7 million.

Financing Activities

Net cash used in financing activities was $4.9 million during the first nine months of 2013, compared to $12.1 million cash used in financing activities in the first nine months of 2012. The main driver of the improvement was funds received from the expansion of the credit facility.

Contractual Obligations

The following table summarizes our significant contractual obligations, including principal and estimated interest on debt, as of September 30, 2013 (in thousands):

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Debt, excluding debentures[1]	$52,337	$1,209	$9,366	$8,876	$32,886

Operating and capital leases	44,316	1,345	9,503	5,628	27,840
Service agreements	825	—	550	275	—
Debentures due Red Lion Hotels Capital Trust [1]	119,896	732	5,857	5,857	107,450
Total contractual obligations [2]	$217,374	$3,286	$25,276	$20,636	$168,176

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

(2) 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.

Table of Contents

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. At our option, we were entitled to extend the original 5-year lease for 19 additional terms of five years each, with increases in lease payments tied directly to the Consumer Price Index. We exercised the option to extend for the first additional 5-year term beginning in May 2011, leaving us with 18 remaining options to extend the lease for additional terms of five years each. We are obligated to pay $2.2 million per year in rent until the end of the extension period in April 2016, which is reflected in the table above.

In addition to the above mentioned obligation, we have leasehold interests at other hotel properties as well as our corporate headquarters located in Spokane, Washington. These leases require us to pay fixed monthly rent and have expiration dates of 2016 and beyond which are reflected in the table above. The table below summarizes the terms of the leases, including extension periods at our option, for our hotel properties as of September 30, 2013:

Property	Expiration date of lease	Extension periods
Red Lion Eugene	February 2062	None
Red Lion River Inn	October 2018	Three renewal terms of five years each
Red Lion Hotel Seattle Airport	December 2024	One renewal term of five years
Red Lion Hotel Vancouver (at the Quay)	December 2020	None
Red Lion Anaheim	April 2016	18 renewal terms of five years each
Red Lion Hotel Kalispell	April 2028	Three renewal terms of five years each

Franchise Update

At September 30, 2013, the Red Lion Hotels and Red Lion Inn & Suites network included 25 hotels under franchise agreements, representing a total of 4,137 rooms and 231,830 square feet of meeting space. During the quarter, we announced that we had signed franchise license agreements with owners of hotels in Ontario and Perris, California, which are located east of downtown Los Angeles, and in Walla Walla, Washington. Subsequent to the end of the quarter and prior to the filing of this quarterly report, the Red Lion Hotel Ontario Airport, the Red Lion Inn & Suites Perris and the Red Lion Inn & Suites Walla Walla converted to the brand.

In July 2013, the Riverside Hotel in Boise, Idaho joined the Leo Hotel Collection, adding 300 rooms and 21,000 square feet of meeting space to the brand. The Leo Hotel collection is now comprised of two hotels with 3,256 rooms and 241,000 square feet of meeting space.

Asset Sale Update

During the quarter ended September 30, 2013, we closed on the sale of the Red Lion Hotel Medford in Medford, Oregon for $2.8 million which was classified as an asset held for sale and the results of which are reflected in discontinued operations. If we list additional assets for sale, it may result in future impairments or losses on the final sales.

Off-balance Sheet Arrangements

As of September 30, 2013, 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.

Critical Accounting Policies and Estimates

The preparation of consolidated 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, 2012.

Table of Contents

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, 2012. Since the date of our 2012 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 and Future Accounting Pronouncements

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our earnings and cash flows are subject to fluctuations due to changes in interest rates primarily from outstanding debt. As of September 30, 2013, our outstanding debt, including current maturities and excluding unamortized origination fees, was $75.8 million.

At September 30, 2013, $30.8 million of our outstanding debt was subject to currently fixed interest rates and was not exposed to market risk from rate changes. In addition, $18.0 million of the $45.0 million outstanding on the variable rate term loan is subject to an interest rate swap, which effectively fixes its interest rate at 4.88%. The remaining $27.0 million outstanding under the term loan remains subject to variable rates, currently set at 3.5%. We can access up to $10 million on our current revolving line of credit, a portion of which supports outstanding letters of credit. The revolving line of credit, which is subject to certain financial covenants, allows us to fund operating needs and may be limited based on a formula relating to the trailing twelve-month consolidated net income of the hotel properties collateralizing the facility. As of September 30, 2013, $10 million on the revolving line of credit was available as we had no amount drawn as of that date.

Under the terms of our expanded credit facility with Wells Fargo, 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. The facility terms require us to hedge at least 40% of our interest rate exposure under the term loan.

We do not enter into derivative transactions for trading purposes, but rather to hedge our exposure to interest rate fluctuations. We manage the 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.

In June 2013, we entered into an $18.0 million notional amount swap agreement that exchanges a variable interest rate based upon LIBOR for a 4.88% fixed rate of interest over the term of the agreement. This swap matures on June 29, 2018. We designated this swap as a cash flow hedge of the interest rate risk attributable to projected variable interest payments. The effective portion of the fair value gains or losses on these swaps is included as a component of accumulated other comprehensive income or loss, net of tax.

Table of Contents

The below table summarizes our debt obligations at September 30, 2013 on our consolidated balance sheet (in thousands):

	2013	2014	2015	2016	2017	Thereafter	Total	Fair Value
Debt, excluding debentures	$750	$3,000	$3,000	$3,000	$3,000	$32,250	$45,000	$45,022
Average interest rate							4.1 %	
Debentures due Red Lion Hotels Capital Trust	$—	$—	$—	$—	$—	$30,825	$30,825	$31,841
Average interest rate							9.5 %	

Item 4. Controls and Procedures

As of September 30, 2013, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended). 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.

There were no changes in internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the first nine months of 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

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. See Note 15 of Condensed Notes to Consolidated Financial Statements.

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, 2012, 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. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits
Index to Exhibits

Exhibit Number	Description
10.1	Separation and General Release Agreement dated September 23, 2013 between the Registrant and George Schweitzer
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 13a-14(b)
32.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(b)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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/ James P. Evans James P. Evans	President and Chief Executive Officer (Principal Executive Officer)	November 5, 2013
By: /s/ Julie Shiflett Julie Shiflett	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	November 5, 2013
By: /s/ Sandra J. Heffernan Sandra J. Heffernan	Senior Vice President, Corporate Controller (Principal Accounting Officer)	November 5, 2013