Red Lion Hotels CORP
Form 10-Q
August 07, 2008

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

(Mark One)

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

For the quarterly period ended June 30, 2008

or

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

For the transition period from __________ to __________

Commission File Number: 001-13957

Red Lion Hotels Corporation

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

As of August 4, 2008, there were 18,261,508 shares of the registrant s common stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements
RED LION HOTELS CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
June 30, 2008 and December 31, 2007

	June 30, 2008	December 31, 2007
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,942	$ 15,044
Restricted cash	3,266	4,439
Accounts receivable, net	11,997	10,330
Inventories	1,358	1,416
Prepaid expenses and other	4,933	3,352
Total current assets	29,496	34,581
Property and equipment, net	287,505	260,574
Goodwill	28,042	28,042
Intangible assets, net	11,322	11,582
Other assets, net	7,013	9,730
Total assets	$ 363,378	$ 344,509
LIABILITIES		
Current liabilities:		
Accounts payable	$ 5,626	$ 4,189
Accrued payroll and related benefits	7,376	6,166
Accrued interest payable	345	356
Advance deposits	996	345
Other accrued expenses	9,665	10,419
Long-term debt, due within one year	2,509	5,547
Total current liabilities	26,517	27,022
Revolving credit facility	22,000	
Long-term debt, due after one year	76,389	77,673
Deferred income	8,822	9,169
Deferred income taxes	17,470	17,294
Minority interest in partnerships	20	31
Debentures due Red Lion Hotels Capital Trust	30,825	30,825
Total liabilities	182,043	162,014
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; 18,247,758 and 18,312,756 shares issued and outstanding	182	183
Additional paid-in capital, common stock	141,604	140,553
Retained earnings	39,549	41,759
Total stockholders equity	181,335	182,495
Total liabilities and stockholders equity	$ 363,378	$ 344,509

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

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RED LION HOTELS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
For the Three and Six Months Ended June 30, 2008 and 2007

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(In thousands, except per share data)			
Revenue:				
Hotels	$ 46,693	$ 44,839	$ 81,928	$ 79,220
Franchise and management	445	782	780	1,571
Entertainment	1,895	2,642	5,106	5,989
Other	779	731	1,556	1,518
Total revenues	49,812	48,994	89,370	88,298
Operating expenses:				
Hotels	33,452	32,791	63,452	62,765
Franchise and management	73	133	145	396
Entertainment	2,114	2,604	5,174	5,459
Other	527	466	1,065	948
Depreciation and amortization	4,632	3,996	9,028	8,016
Hotel facility and land lease	1,860	1,737	3,646	3,451
Gain on asset dispositions, net	(33)	(49)	(140)	(239)
Undistributed corporate expenses	1,882	1,505	6,963	2,955
Total expenses	44,507	43,183	89,333	83,751
Operating income	5,305	5,811	37	4,547
Other income (expense):				
Interest expense	(2,356)	(2,309)	(4,635)	(4,551)
Minority interest in partnerships, net	(5)	(14)	12	(1)
Other income, net	499	284	911	592
Income (loss) from continuing operations before income taxes	3,443	3,772	(3,675)	587
Income tax (benefit) expense	1,142	1,263	(1,465)	57
Net income (loss) from continuing operations	2,301	2,509	(2,210)	530
Discontinued operations:				

Loss from operations of discontinued business units, net of income tax benefit of $37 and $45, respectively, in 2007		(67)		(81)
Net loss on disposal of discontinued business units, net of income tax benefit of $134 and $140, respectively, in 2007		(244)		(256)
Loss from discontinued operations		(311)		(337)
Net income (loss)	$ 2,301	$ 2,198	$ (2,210)	$ 193
Earnings (loss) per share:				
Basic				
Net income (loss) from continuing operations	$ 0.13	$ 0.13	$ (0.12)	$ 0.03
Loss from discontinued operations		(0.02)		(0.02)
Net income (loss)	$ 0.13	$ 0.11	$ (0.12)	$ 0.01
Diluted				
Net income (loss) from continuing operations	$ 0.12	$ 0.13	$ (0.12)	$ 0.03
Loss from discontinued operations		(0.02)		(0.02)
Net income (loss)	$ 0.12	$ 0.11	$ (0.12)	$ 0.01
Weighted average shares basic	18,237	19,199	18,234	19,174
Weighted average shares diluted	18,531	19,697	18,234	19,667

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

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RED LION HOTELS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
For the Six Months Ended June 30, 2008 and 2007

	Six months ended June 30, 2008	2007
	(In thousands)	
Operating activities:		
Net income (loss)	$ (2,210)	$ 193
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	9,028	8,034
Gain on disposition of property, equipment and other assets, net	(140)	(239)
Loss on disposition of discontinued operations, net		397
Deferred income tax provision	176	1,686
Minority interest in partnerships	(11)	2
Equity in investments	28	20
Imputed interest expense	111	104
Compensation expense related to stock and option issuance	1,905	563
Collection of doubtful accounts	(16)	(52)
Change in current assets and liabilities:		
Restricted cash	1,173	(638)
Accounts receivable	(1,609)	(1,125)
Inventories	99	36
Prepaid expenses and other	(1,573)	(3,428)
Accounts payable	1,437	(3,334)
Accrued payroll and related benefits	1,210	(516)
Accrued interest payable	(11)	(64)
Other accrued expenses and advance deposits	(345)	774
Net cash provided by operating activities	9,252	2,413
Investing activities:		
Purchases of property and equipment	(35,418)	(9,315)
Non-current restricted cash for sublease tenant improvements	1,727	
Proceeds from disposition of property and equipment	5	
Proceeds from disposition of discontinued operations		3,771
Proceeds from short-term liquid investments		7,635
Advances to Red Lion Hotels Capital Trust	(27)	(17)
Other, net	647	(266)
Net cash provided by (used in) investing activities	(33,066)	1,808
Financing activities:		
Borrowings on revolving credit facility	23,000	
Repayment of revolving credit facility	(1,000)	
Repayment of long-term debt	(4,433)	(1,120)
Borrowings on long-term debt		3,926
Common stock redeemed	(926)	

Proceeds from issuance of common stock under employee stock purchase plan	71	88
Proceeds from stock option exercises		320
Net cash provided by financing activities	16,712	3,214
Net cash in discontinued operations		(35)
Change in cash and cash equivalents:		
Net increase (decrease) in cash and cash equivalents	(7,102)	7,400
Cash and cash equivalents at beginning of period	15,044	13,262
Cash and cash equivalents at end of period	$ 7,942	$ 20,662
Supplemental disclosure of cash flow information:		
Cash paid during periods for:		
Interest on long-term debt	$ 4,535	$ 4,652
Cash received during periods for:		
Income taxes	$ 900	$

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

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RED LION HOTELS CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Red Lion Hotels Corporation (Red Lion or the Company) is a NYSE-listed hospitality and leisure company (ticker symbols RLH and RLH-pa) primarily engaged in the ownership, operation and franchising of midscale and upscale, full service hotels under the Red Lion brand. As of June 30, 2008, the Red Lion system of hotels contained 50 hotels located in nine states and one Canadian province, with 9,326 rooms and 448,626 square feet of meeting space. As of that date, the Company operated 32 hotels, of which 19 are wholly owned and 13 are leased, and franchised 18 hotels that were owned and operated by various third-party franchisees.

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

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

The financial statements include a 19.9% equity method investment in the RLH corporate office building, as well as certain cost method investments in various entities included as other assets, over which the Company does not exercise significant influence. In addition, the Company holds a 3% common interest in Red Lion Hotels Capital Trust (the Trust) that is considered a variable interest entity under FIN-46(R) Consolidation of Variable Interest Entities, as revised. The Company is not the primary beneficiary of the Trust; thus, it is treated as an equity method investment.

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

2. Basis of Presentation

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

The balance sheet as of December 31, 2007 has been compiled from the audited balance sheet as of such date. The Company believes the disclosures included herein are adequate; however, they should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2007, previously filed with the SEC on Form 10-K.

In the opinion of management, these unaudited consolidated financial statements contain all of the adjustments of a normal and recurring nature necessary to present fairly the consolidated financial position of the Company at June 30, 2008, the consolidated results of operations for the three and six months ended June 30, 2008 and 2007, and the consolidated cash flows for the six months ended June 30, 2008 and 2007. The results of operations for the periods presented may not be indicative of those which may be expected for a full year.

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.

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3. Property and Equipment

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

	June 30, 2008	December 31, 2007
Buildings and equipment	$ 274,144	$ 253,905
Furniture and fixtures	39,248	37,557
Landscaping and land improvements	5,491	5,322
	318,883	296,784
Less accumulated depreciation and amortization	(107,789)	(99,605)
	211,094	197,179
Land	66,146	58,928
Construction in progress	10,265	4,467
	$ 287,505	$ 260,574

The Company completed the purchase of a 478 room, full service hotel asset in the Denver, Colorado area in May 2008 for $25.3 million. The Company plans to invest over $8.0 million on renovations and hotel enhancements.

4. Assets Held For Sale and Discontinued Operations

From November 2004 through December 2006, the Company divested non-strategic assets including ten of its owned hotels, certain commercial office buildings and certain other non-core properties including condominium units and certain parcels of excess land (collectively referred to as the divestment properties). Each of the divestment properties met the criteria to be classified as an asset held for sale. The activities of the hotels and commercial office buildings have been considered discontinued operations under generally accepted accounting principles and separately disclosed on the consolidated statement of operations, comparative for all periods presented when they existed.

During the second quarter of 2007, the Company sold its one remaining hotel listed for sale and included in discontinued operations for $3.9 in gross proceeds, located in Kalispell, Montana. As of June 30, 2007, a commercial office complex located in Spokane, Washington, was the remaining asset held for sale and included in discontinued operations, which was subsequently sold during the third quarter of 2007. During the second quarter and first six months of 2007, the Company recorded a loss from discontinued operations of $0.3 million in each period. Revenues from discontinued operations during the second quarter and first six months of 2007 were approximately $0.6 million and $1.2 million. There were no remaining discontinued operations as of December 31, 2007.

5. Revolving Credit Facility

In September 2006, the Company entered into a revolving credit facility for up to $50 million with a syndication of banks led by Calyon New York Branch. Subject to certain conditions, including the provision of additional collateral acceptable to the lenders, the size of the facility may be increased at the Company s request up to $100 million. The initial maturity date for the facility is September 13, 2009, but the Company has the right to extend the maturity for two additional one year terms. Borrowings under the facility may be used to finance acquisitions or capital expenditures, for working capital and for other general corporate purposes. The obligations under the facility are collateralized by a company owned hotel, including a deed of trust and security agreement covering all of its assets, as well as by unsecured guaranties of the Company and certain of its other subsidiaries. In connection with this transaction, the Company paid loan fees and related costs of approximately $0.9 million, which have been deferred and are being amortized over the initial term of the facility.

During the second quarter of 2008, and in connection with the acquisition of the Red Lion Hotel Denver Southeast discussed in Note 3, the Company borrowed $23.0 million against the revolving credit facility. Outstanding borrowings under the facility accrue interest at rates ranging from 150 to 225 basis points over LIBOR, with an option for base rate loans based upon the federal funds rate or prime rate. The credit facility requires the Company to comply with certain customary affirmative and negative covenants, the most restrictive of which are financial covenants dealing with leverage, interest coverage and debt service coverage. At June 30, 2008, $22.0 million was outstanding under the facility at an interest rate of 4.0% based on a 30-day LIBOR plus 1.5%. At June 30, 2008 and December 31, 2007, the Company was in compliance with all of its covenants.

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6. Business Segments

As of June 30, 2008 and December 31, 2007, the Company has three operating segments hotels, franchise and management, and entertainment. The other segment consists primarily 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 exclusive of interest expense; therefore, it has not been allocated to the segments. All balances have been presented after the elimination of inter-segment and intra-segment revenues. Selected information with respect to continuing operations is provided below.

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenues:				
Hotels	$46,693	$44,839	$81,928	$79,220
Franchise and management	445	782	780	1,571
Entertainment	1,895	2,642	5,106	5,989
Other	779	731	1,556	1,518
	$49,812	$48,994	$89,370	$88,298
Operating income (loss):				
Hotels	$ 7,588	$ 7,005	$ 7,498	$ 6,458
Franchise and management	238	482	376	816
Entertainment	(327)	(69)	(286)	317
Other	(2,194)	(1,607)	(7,551)	(3,044)
	$ 5,305	$ 5,811	$ 37	$ 4,547

	June 30, 2008	December 31, 2007
Identifiable assets:		
Hotels	$307,570	$281,117
Franchise and management	18,217	18,260
Entertainment	6,196	6,279
Other	31,395	38,853
	$363,378	$344,509

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7. Earnings (Loss) Per Share

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted income (loss) per share computations for the three and six months ended June 30, 2008 and 2007 (in thousands, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
Numerator basic and diluted:				
Net income (loss) from continuing operations	$ 2,301	$ 2,509	$ (2,210)	$ 530
Loss on discontinued operations		(311)		(337)
Net income (loss)	2,301	2,198	(2,210)	193
Denominator:				
Weighted average shares basic	18,237	19,199	18,234	19,174
Weighted average shares diluted	18,531	19,697	18,234	19,667
Earnings (loss) per share basic:				
Income (loss) from continuing operations	$ 0.13	$ 0.13	$ (0.12)	$ 0.03
Loss on discontinued operations		(0.02)		(0.02)
Net income (loss)	$ 0.13	$ 0.11	$ (0.12)	$ 0.01
Earnings (loss) per share diluted:				
Income (loss) from continuing operations	$ 0.12	$ 0.13	$ (0.12)	$ 0.03
Loss on discontinued operations		(0.02)		(0.02)
Net income (loss)	$ 0.12	$ 0.11	$ (0.12)	$ 0.01

For the three months ended June 30, 2008, 233,446 of the 1,433,048 options to purchase common shares outstanding were considered dilutive. Of the 55,715 restricted stock units outstanding, 16,040 shares were included in the above calculation of diluted earnings per share. For the six months ended June 30, 2008, all options and restricted stock units outstanding were considered anti-dilutive due to the loss for that period. For the three and six months ended June 30, 2007, 319,863 and 320,454 of the 1,312,809 options to purchase common shares outstanding, respectively, were considered dilutive, as were the 44,473 units of restricted stock outstanding during both periods.

For the three months ended June 30, 2008, all of the 44,837 convertible operating partnerships (OP) units were considered dilutive, although for the six month period, the units were considered anti-dilutive due to the loss for that period. For the three and six months ended June 30, 2007, 142,663 OP units were considered dilutive and included within the above calculations.

8. Change in Executive Officers

In February 2008, the President and Chief Executive Officer of the Company, who was also a director of the Company, retired. In connection therewith, the Company entered into a written retirement agreement with the executive that includes separation payments and benefits of $2.2 million in value. Under the terms of the agreement, the unvested portion of the former executive s 545,117 stock options and 12,990 restricted stock units immediately vested, resulting in expense of $1.0 million during the first quarter of 2008. In addition, under the terms of the retirement agreement, the exercise period for 414,191 of the options was extended to February 2011 or until the earlier expiration of their original 10-year term. The remaining 130,926 stock options expired in May 2008. The modification to the terms of the previously granted equity awards resulted in additional stock based compensation expense of $0.4 million. In total, the Company recognized $3.7 million in expense during the first quarter of 2008 related to this retirement.

Also in February 2008, the board of directors granted 5,769 restricted shares of common stock and 52,734 options to purchase common stock in connection with the appointment of the Company s new President, Chief Executive Officer and director. Under the terms of the award, the options and units issued will vest 25% each year for four years with no stock prices or other acceleration provisions. Both equity awards were based on a grant date price of $7.80. On the grant date, the options had a fair value of $2.53 per share, based on the Black-Scholes options pricing model using the following assumptions:

Dividend yield	0%
Expected volatility	34.6%
Forfeiture rate	0%
Risk free interest rate	3.62%
Expected options lives	4 years

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9. Stock Based Compensation

The 2006 Stock Incentive Plan authorizes the grant or issuance of various option and other awards including restricted stock grants and other stock-based compensation. The plan was approved by the shareholders of the Company and allows awards of 1.0 million shares, subject to adjustments for stock splits, stock dividends and similar events. During the first six months of 2008, the board of directors granted 370,337 options to purchase common stock and unvested restricted stock units to executive officers and other key employees, which will vest 25% each year for four years with no stock price acceleration provision. In addition, non-executive directors of the Company were granted an aggregate 17,160 shares of common stock with a fair value of $0.2 million as part of the existing director s compensation arrangement. As of June 30, 2008, there were 384,826 shares of common stock available for issuance pursuant to future stock option grants or other awards under the 2006 plan.

For the options issued in 2008, the weighted average assumptions below were used:

Weighted-average fair value of options granted	$ 8.52
Dividend yield	0%
Expected volatility	34.25%
Forfeiture rate	4.3%
Risk free interest rates	4.12%
Expected option lives	4 years

In the second quarter and first six months of 2008, the Company recognized approximately $0.1 million and $1.5 million, respectively, in compensation expense related to options, compared to $0.2 million and $0.3 million, respectively, during the same periods in 2007. The 2008 six month period includes expense recorded in February upon the retirement of the Company s former President and Chief Executive Officer, as discussed above in Note 8. At June 30, 2008, the fair value of outstanding options was approximately $1.9 million. As outstanding unvested options vest, the Company expects to recognize approximately $1.3 million in additional compensation expense before the impact of income taxes over a weighted average period of 41 months, including $0.4 million during the remainder of 2008. A summary of stock option activity at June 30, 2008, is as follows:

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2007	1,276,534	$ 7.98
Options granted	334,212	$ 8.52
Options forfeited	(177,698)	$ 12.81
Balance, June 30, 2008	1,433,048	$ 7.50
Exercisable, June 30, 2008	723,817	$ 6.51

Additional information regarding stock options outstanding and exercisable as of June 30, 2008, is as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Expiration Date	Weighted Average Exercise Price	Aggregate Intrinsic Value (1) (in thousands)	Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value (1) (in thousands)
5.10 - 6.07	654,176	4.19	2011-2014	$ 5.30	$ 1,745	507,926	$ 5.36	$ 1,326

7.05 - 7.80	270,878	5.94	2009-2018	7.52	122	114,500	7.47	58
8.31 - 8.80	288,842	9.09	2010-2018	8.71		27,008	8.31	
10.88-10.94	25,941	2.26	2009-2016	10.93		21,461	10.94	
12.21-15.00	193,211	8.44	2008-2017	12.67		52,922	12.83	
	1,433,048	6.05	2008-2018	$ 7.50	$ 1,867	723,817	$ 6.51	$ 1,384

(1) The aggregate intrinsic value is before applicable income taxes and represents the amount option recipients would have received if all options had been available to be exercised on the last trading day of the second quarter of 2008, or June 30, 2008, based upon the Company s closing stock price of $7.97.

During May 2008, 2,750 restricted shares vested and were issued. Under the terms of the plan and upon vesting, the Company authorized a net settlement of distributable shares to employees after consideration of individual employees tax withholding obligations, at the election of each employee. In June 2008, the Company repurchased 423 shares for approximately $9.47 per share to cover the participant s tax liability. As of June 30, 2008 and June 30, 2007, there were 55,715 and 44,473 unvested restricted stock units outstanding, respectively. Since grant, approximately 1% of total stock units have been forfeited. In the first six months of 2008 and 2007, the Company recognized approximately $0.2 million and $43,000, respectively, in compensation expense related to restricted stock units. The 2008 expense reflects $0.1 million recorded upon the retirement of the Company s former President and Chief Executive Officer. As the restricted stock units vest, the Company expects to recognize approximately $0.5 million in additional compensation expense over a weighted average period of 40 months.

In 1998, the Company adopted an employee stock purchase plan (the 1998 ESPP) to assist its employees in acquiring a stock ownership interest in the Company at a discount. Under the ESPP, 300,000 shares of common stock are authorized for purchase, of which 64,993 shares remained available at the time the ESPP terminated on December 31, 2007, in accordance with its terms. The 64,993 shares included 8,515 shares issued in January 2008, for which the Company had previously recognized approximately $0.1 million in compensation expense for the discount.

Due to the expiration of the 1998 ESPP and upon shareholder ratification at the annual shareholder meeting in May 2008, the Company adopted the 2008 employee stock purchase plan (the 2008 ESPP). The terms of the 2008 ESPP remained essentially the same as its predecessor, with 300,000 shares of common stock authorized for purchase that permits eligible employees to purchase common stock at a discount through payroll deductions. No employee may purchase more than $25,000 worth of shares in any calendar year. As allowed under the 2008 ESPP, a participant may elect to withdraw from the plan, effective for the purchase period in progress at the time of the election with all accumulated payroll deductions returned to the participant at the time of the withdrawal. The common stock will be offered during twenty consecutive six-month periods, with the purchase periods beginning on the first day and end on the last day of each subsequent six-month period. The first period began on January 1, 2008 and ended on June 30, 2008, and 13,750 shares were issued out of the plan in July 2008.

10. Share Repurchases

In September 2007, the Company announced a common stock repurchase program for up to $10.0 million. Any stock repurchases were to be made through open market purchases, block purchases or privately negotiated transactions. The timing and actual number of share repurchases were dependent on several factors including price, corporate and regulatory requirements and other conditions. As of December 31, 2007, the Company had repurchased 924,200 shares at a cost of $9.1 million. During January 2008, the Company repurchased an additional 93,000 shares for an aggregate cost of $0.9 million, completing the program.

Period	Number of Shares	Weighted Average Repurchase Price
1/1/08-1/31/08	93,000	$ 9.58

11. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements itself. However, this statement applies under other accounting pronouncements that require or permit fair value measurements and may therefore change current practice if an alternative measure of fair value has been used. SFAS No. 157 applies an exchange price notion for fair value consistent with previously preferred practice, with a focus on exit price and market-based measurements as compared to entry price and entity-specific measurements. SFAS No. 157 is effective for financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued proposed FSP FAS 157-2, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 partially defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of the FSP. Effective January 1, 2008, the Company adopted SFAS No. 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2.

The Company does not use derivative instruments, nor does it hold or issue financial instruments for the purpose of trading. The Company s financial instruments currently consist of cash and cash equivalents, restricted cash, accounts receivable, cash included in other assets, current liabilities and debt obligations. The carrying amounts for cash and cash equivalents, current investments, accounts receivable, current liabilities and variable rate long-term debt are reasonable estimates of their fair values. Therefore, the Company experienced no impact on the carrying value of any financial asset or liability recognized at adoption and does not expect the adoption of this standard to have a material effect on its financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, the objective of which is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement, which is consistent with FASB s long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. While SFAS No. 159 became effective on January 1, 2008, the Company did not elect the fair value measurement option for any of its financial assets or liabilities.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)) and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51 (SFAS No. 160) SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 141R and SFAS No. 160 are effective for annual periods beginning after December 15, 2008, and early adoption is not permitted. The Company is currently evaluating the impact the adoption of SFAS No. 141R and SFAS No. 160 could have on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161), an amendment of FASB No. 133. The new Statement will improve the transparency about where derivative instruments are located in financial statements, how derivative instruments and related hedge items are currently accounted for under Statement 133, and how these instruments ultimately affect an entity s financial position, performance, and cash flow. It requires that entities disclose the fair value of derivative instruments and their gains and losses, disclose features that are credit risk related, and cross reference footnotes to enable financial statement end users to locate significant derivative instrument information more easily. Statement No. 161 is effective for all financial statements that are issued for fiscal years and interim periods after November 15, 2008, although entities are encouraged to adopt its requirements early. The Company does not currently engage in hedging activities and does not currently have derivative instruments recorded within its consolidated financial statements. Thus, the Company does not expect the adoption of SFAS No. 161 will have any effect on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162), which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP to improve the quality of standards and the standard-setting process, including improving the conceptual framework, codifying existing accounting literature, transitioning to a single standard-setter regime, and converging FASB and standards of the International Accounting Standards Board. SFAS No. 162 is effective 60 days following the SEC s approval of the PCAOB amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.

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

This quarterly report on Form 10-Q includes forward-looking statements. We have based these statements on our current expectations and projections about future events. When words such as anticipate, believe, estimate, expect, intend, may, plan, seek, should, will and similar expressions or their negatives are used in this quarterly repo are forward-looking statements. Many possible events or factors, including those discussed in Risk Factors under Item 1A of our annual report filed on Form 10-K for the year ended December 31, 2007, could affect our future financial results and performance, and could cause actual results or performance to differ materially from those expressed. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this quarterly report.

In this report, we, us, our, our company and the company refer to Red Lion Hotels Corporation and, as the c requires, all of its wholly and partially owned subsidiaries, including, but not limited to, its 100% ownership of Red Lion Hotels Holdings, Inc. and Red Lion Hotels Franchising, Inc. and its approximate 99% ownership of Red Lion Hotels Limited Partnership. Red Lion refers to the Red Lion brand. The term the system, system-wide hotels or syste of hotels refers to our entire group of owned, leased, managed 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, 2007, previously filed with the SEC on Form 10-K.

Introduction

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

As of June 30, 2008, our hotel system contained 50 hotels located in nine states and one Canadian province, with 9,326 rooms and 448,626 square feet of meeting space as provided below:

	Hotels	Total Available Rooms	Meeting Space (sq. ft.)
Red Lion Owned and Leased Hotels	31	5,934	304,684
Other Leased Hotel (1)	1	310	5,000
Red Lion Franchise Hotels (2)	18	3,082	138,942
Total	50	9,326	448,626
Total Red Lion Hotels	49	9,016	443,626

(1) Represents a hotel acquired in the fourth quarter of 2007 that is being repositioned as a Red Lion, although until that time has been flagged as an independent

property and other leased hotel.

(2) In July 2008, we terminated a franchise agreement with the 186-room Red Lion Hotel Modesto for non-performance. This reduced the total number of franchised hotels in the system to 17 and the total number of hotels in the system to 49 as of the date of this filing.

Red Lion is about Staying Comfortable and our product and service culture is successful in both large urban and smaller markets. Our hotels strive to reflect the character of their unique local markets in which they are operated, while maintaining a consistent Stay Comfortable experience. We believe our adherence to consistent customer service standards and brand touch-points make guests feel at home no matter where they are.

We operate in three reportable segments:

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

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

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from management fees charged to the owners of the hotels, typically based on a percentage of the hotel s gross revenues plus an incentive fee based on operating performance.

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

Our remaining activities, none of which constitutes a reportable segment, have been aggregated into Other. As of June 30, 2007, and as discussed further in Note 4 of Notes to Consolidated Financial Statements, we had one commercial office left for sale and included within discontinued operations that was subsequently sold in September 2007. There were no remaining discontinued operations as of December 31, 2007.

Executive Summary

Our mission is to create the most memorable guest experience possible, through personalized, exuberant service, allowing us to be a leader in our markets. We believe that leveraging the uniqueness of our physical assets and interacting with our guests in the warm, genuine way that Red Lion has historically been known for will drive growth and increase shareholder value. To achieve these goals, we have focused and will continue to focus our resources monetary, capital and human in four primary areas:

Infrastructure We have improved the foundation of our company by focusing on our core competencies and by investing in the infrastructure we use to manage the distribution of our inventory through online and traditional reservations channels. Centrally sourced reservations (i.e. voice, redlion.com, travel agent and third-party on-line travel agencies) accounted for 46% of system revenues in 2007 and 44% in the first half of 2008. The revenue we delivered from our branded website, redlion.com, increased 13.3% in the first half of 2008 over the same period in 2007.

During the remainder of 2008, we will complete the installation of MICROS Opera Property Management Systems (Opera) throughout our portfolio of owned hotels. This provides us with a single database for managing, analyzing and reporting our customer activity and greatly enhances both our customer service levels and ability to e-market using sophisticated customer relations management tools and tactics.

Physical Assets We have completed major room and public space renovations at all of our owned and leased hotels, which have strengthened the performance of our hotel system quarter-after-quarter since 2005, when renovations began. During the second quarter of 2008, RevPAR and ADR at our owned and leased properties increased 3.2% and 1.4%, respectively, over that experienced in the 2007 period as provided in the table below. Average occupancy, average daily rate and revenue per available room statistics provided includes all owned, leased and franchised hotels on a comparable basis.

	For the three months ended June 30,						For the six months ended June 30,					
	2008			2007			2008			2007		
	Average Occupancy (1)	ADR (2)	RevPAR (3)	Average Occupancy (1)	ADR (2)	RevPAR (3)	Average Occupancy (1)	ADR (2)	RevPAR (3)	Average Occupancy (1)	ADR (2)	RevPAR (3)
Owned and Leased Hotels	68.4%	$90.58	$61.93	67.2%	$89.29	$60.02	60.6%	$88.15	$53.42	59.9%	$86.23	$51.67
Franchised Hotels	60.6%	$77.16	$46.78	63.0%	$75.14	$47.30	54.0%	$75.59	$40.78	59.3%	$73.51	$43.60
Total Red Lion Hotels	65.8%	$86.42	$56.84	65.8%	$84.74	$55.75	58.5%	$84.47	$49.41	59.7%	$82.22	$49.11

Change from prior comparative period:						
Owned and Leased Hotels	1.2	1.4%	3.2%	0.7	2.2%	3.4%
Franchised Hotels	(2.4)	2.7%	-1.1%	(5.3)	2.8%	-6.5%
Total Red Lion Hotels		2.0%	2.0%	(1.2)	2.7%	0.6%

(1) Average occupancy represents total paid rooms divided by total available rooms. Total available rooms represents the number of rooms available multiplied by the number of days in the reported period and includes rooms taken out of service for renovation.

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

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

available rooms.

We remain committed to ongoing capital improvements in order to continue to strengthen the Red Lion brand by improving our hotel quality to enhance our guests experience. While our franchise properties saw improvements in ADR during the first six months of 2008, they experienced lower RevPAR on reduced occupancy. We do not exclude rooms out of service for renovation from our calculation of RevPAR and occupancy.

The Red Lion Way We want our guests to feel our commitment to their memorable experience through our employees. In order to live up to our mission statement, management believes strongly in associate retention and development and is committed to competitive compensation and benefit packages and advancement opportunities. We are investing in a strong future by developing throughout all levels of our organization leaders who understand that a culture of employee satisfaction and excellent service is an integral component of our long-term growth strategy. Our goal is to be known in our industry for leadership excellence and being a great company to work for in each of our markets. As a result of our efforts, we continue to experience a reduction in associate turnover.

Growth Preparing for growth means improving our liquidity and capital resources and increasing the depth of financial resources available to us. In May 2008, we completed the acquisition of a 478-room, full service hotel in Denver, Colorado. The two-tower hotel property also includes 25,000 square feet of meeting space and an onsite two-story parking garage. The purchase price was $25.3 million and we plan to invest over $8.0 million on renovations to enhance the hotel. Combined with our existing 297-room franchised property in Denver, this creates a strong Red Lion presence in this strategic hub market.

We expect to continue to add properties in large, western U.S. urban markets, complemented by franchising leading properties in smaller, secondary cities, and progressively move east, leveraging the momentum of our growth in the western states. Our intent is to selectively make joint venture investments or acquire hotels located in major metropolitan cities. We will evaluate investment opportunities in highly visible markets based upon a number of factors including price, strategic fit, potential profitability and geographic distribution. In addition to our Anaheim, California acquisition in October 2007 and the recently acquired Red Lion Hotel Denver Southeast, the greater San Francisco, Los Angeles, Phoenix, and Dallas areas are examples of hub markets we are targeting for expansion.

Significant events during the current year thus far include:

- The acquisition of a 478-room hotel in Denver, Colorado as discussed above;

- Change in management leadership following the retirement of our former President and Chief Executive Officer;

- 10-year anniversary as a public company and trading on the New York Stock Exchange;

- Rebranding of our customer loyalty program to the Red Lion R&R (Rewards and Recognition) Club;

- Commencement of the complete renovation of our Anaheim property; and

- Completion of the implementation of new ticketing application software at all TicketsWest locations.

Financially, we believe we have a strong balance sheet and financial position. In addition to the $7.9 million held in cash at June 30, 2008, we have a revolving credit facility of $50 million, $28.0 of which remains unused as of the balance sheet date. This credit facility can be increased by an additional $50 million to a maximum of $100 million, subject to satisfaction of various conditions. We believe we have a solid foundation for continued growth and feel the turmoil in the capital markets has created a favorable environment for strategic buyers.

Our operating results are subject to conditions affecting the lodging industry, including any impact from the downturn of the airline industry and high fuel prices. While we have experienced positive RevPAR and operating margin growth through the first quarter and again in the second, toward the end of the second quarter we began to see a slowdown in demand. In particular, our transient business has decreased year-over-year and we expect that trend to continue throughout 2008. We have undertaken a review of activities in an effort to implement cost cutting measures and maintain or improve our margins. We are aggressively managing our mix of business and have launched several marketing programs in an effort to boost revenues and maintain or increase our market share.

Our strategy will continue to be to improve profit margins through cost controls while maintaining the Red Lion culture so that our guests continue to Stay Comfortable. Even in this uncertain economy and into the future, we believe that we are positioned to achieve our long-term strategic goals. However, we further believe the current difficult economic period and its effect on our industry have created an uncertain operating environment for at least the remaining portion of 2008 and into 2009. There can be no assurance our results of operations will be similar to our results reported thus far during the first six months of 2008 if changes in travel patterns continue or general conditions of the economy continue to worsen.

Results of Operations

During the second quarter of 2008, we reported net income of $2.3 million (or $0.12 per share) compared to $2.2 million (or $0.11 per share) during the second quarter of 2007. For the first six months of 2008, we reported a net loss of $2.2 million (or $0.12 per share) compared to net income of $0.2 million (or $0.01 per share) during the first six months of 2007. The loss experienced during the first six months of 2008 is primarily due to a $3.7 million charge recorded during the first quarter of 2008 for separation costs associated with the retirement of our former President and Chief Executive Officer in February 2008.

During the second quarter of 2007, we sold the last remaining hotel in discontinued operations for gross proceeds of $3.9 million. As a result of the sale, we recognized a loss on disposition of $0.3 million, net of income tax expense. The net impact on consolidated earnings from the activities of discontinued operations, which also included a commercial office building that was subsequently sold in September 2007, were losses of approximately $0.3 million and $0.3 million, respectively, during the second quarter and first six months of 2007. There were no remaining discontinued operations as of December 31, 2007. A summary of our consolidated statement of operations is as provided below (in thousands, except per share data).

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	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Total revenue	$ 49,812	$ 48,994	$ 89,370	$ 88,298
Operating expenses	44,507	43,183	89,333	83,751
Operating income	5,305	5,811	37	4,547
Other income (expense):				
Interest expense	(2,356)	(2,309)	(4,635)	(4,551)
Minority interest in partnerships, net	(5)	(14)	12	(1)
Other income, net	499	284	911	592
Income (loss) from continuing operations before income taxes	3,443	3,772	(3,675)	587
Income tax (benefit) expense	1,142	1,263	(1,465)	57
Net income (loss) from continuing operations	2,301	2,509	(2,210)	530
Loss from discontinued operations		(311)		(337)
Net income (loss)	$ 2,301	$ 2,198	$ (2,210)	$ 193
Earnings (loss) per share basic	$ 0.13	$ 0.11	$ (0.12)	$ 0.01
Earnings (loss) per share diluted	$ 0.12	$ 0.11	$ (0.12)	$ 0.01
EBITDA	$ 10,431	$ 9,678	$ 9,988	$ 12,712
EBITDA from continuing operations	$ 10,431	$ 10,077	$ 9,988	$ 13,154

Operating expenses increased by $1.3 million quarter-over-quarter, due primarily to the impact of increased depreciation expense of $0.6 million, and $5.6 million in the six-month comparable period, also due to increased depreciation expense as well as the $3.7 million charge incurred in the first quarter of 2008 discussed above. The following table details the impact of that $3.7 million charge on net loss, loss per share and EBITDA for the first six months of 2008 (in thousands, except per share data):

Separation costs	$ (3,654)
Income tax benefit	1,297
Impact of separation costs on net loss	$ (2,357)
Separation costs	$ (0.20)
Income tax benefit	0.07
Impact of separation costs on loss per share	$ (0.13)

Impact of separation costs on EBITDA	$ (3,654)

EBITDA represents net income (loss) before interest expense, income tax benefit (expense) and depreciation and amortization. We utilize EBITDA as a financial measure because management believes that investors find it to be a useful tool to perform more meaningful comparisons of past, present and future operating results and as a means to evaluate the results of core on-going operations. We believe it is a complement to net income (loss) and other financial performance measures. EBITDA from continuing operations is calculated in the same manner, but excludes the operating activities of business units identified as discontinued. EBITDA is not intended to represent net income (loss) 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 the financial performance of our owned and leased hotels because we believe interest, taxes and depreciation and amortization bear little or no relationship to our operating performance. By excluding interest expense, EBITDA measures our financial performance irrespective of our capital structure or how we finance our properties and operations. We generally pay federal and state income taxes on a consolidated basis, taking into account how the applicable taxing laws apply to us in the aggregate. By excluding taxes on income, we believe EBITDA provides a basis for measuring the financial performance of our operations excluding factors that our hotels cannot control. By excluding depreciation and amortization expense, which can vary from hotel to hotel based on historical cost and other factors unrelated to the hotels financial performance, EBITDA measures the financial performance of our hotels without regard to their historical cost. For all of these reasons, we believe that EBITDA provides us and investors with information that is relevant and useful in evaluating our business. We believe that the presentation of EBITDA from continuing operations is useful for the same reasons, in addition to using it for comparative purposes for our intended operations going forward.

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 from continuing operations excludes the activities of operations we have determined to be discontinued and does not reflect the totality of operations as experienced for the periods presented. 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), which is the most comparable financial measure calculated and presented in accordance with GAAP. EBITDA does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to operating income or net income (loss) determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity.

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

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
EBITDA	$ 10,431	$ 9,678	$ 9,988	$ 12,712
Income tax benefit (expense)	(1,142)	(1,092)	1,465	129
Interest expense	(2,356)	(2,383)	(4,635)	(4,614)
Depreciation and amortization	(4,632)	(4,005)	(9,028)	(8,034)
Net income (loss)	$ 2,301	$ 2,198	$ (2,210)	$ 193
EBITDA from continuing operations	$ 10,431	$ 10,077	$ 9,988	$ 13,154
Income tax benefit (expense)	(1,142)	(1,263)	1,465	(57)
Interest expense	(2,356)	(2,309)	(4,635)	(4,551)
Depreciation and amortization	(4,632)	(3,996)	(9,028)	(8,016)
Net income (loss) from continuing operations	2,301	2,509	(2,210)	530
Loss from discontinued operations		(311)		(337)
Net income (loss)	$ 2,301	$ 2,198	$ (2,210)	$ 193

Revenue

A breakdown of our revenues from continuing operations for the three and six months ended June 30, 2008 and 2007 is as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenues From Continuing Operations				
Hotels:				
Room revenue	$ 32,569	$ 31,238	$ 56,119	$ 53,893
Food and beverage revenue	13,012	12,707	23,815	23,669
Other department revenue	1,112	894	1,994	1,658
Total hotels segment revenue	46,693	44,839	81,928	79,220
Franchise and management revenue	445	782	780	1,571
Entertainment revenue	1,895	2,642	5,106	5,989

Other revenue	779	731	1,556	1,518
Total revenue	$ 49,812	$ 48,994	$ 89,370	$ 88,298

Three Months Ended June 30, 2008 and 2007

During the second quarter of 2008, revenue from the hotel segment increased $1.9 million, or 4.1%, compared to the second quarter of 2007, primarily due to a 19.3% increase in group revenues, as well as a modest increase in rate and occupancy. The increase in group revenues also contributed to the increase in food and beverage revenues, as did an increase in food sold in our lounges. Permanent room bookings also contributed to the increase in revenue, offset by a 19.5% decrease in transient rooms occupied. Revenue contributed by our company website was 9.6% of total room revenue for the second quarter of 2008, compared to 10.0% during the second quarter of 2007.

Second quarter 2007 revenues include $2.1 million from the Red Lion Sacramento, which transitioned from a leased hotel to a franchise in July 2007. The $2.1 million was offset by the addition of $2.6 million in revenues contributed by our Anaheim hotel and approximately one month of revenue from the Red Lion Hotel Denver Southeast, neither of which were in our system of hotels during the comparable period in 2007.

Revenue from the franchise and management segment decreased $0.3 million, or 43.1%, primarily due to the receipt of termination fees of $0.2 million during the second quarter of 2007, as well as to a decrease in royalty fees resulting from having fewer hotels in our system quarter-over-quarter. Revenues from the entertainment segment decreased 28.3% primarily due to the difference in number and type of shows presented between the second quarter of 2007 and the current period.

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Six Months Ended June 30, 2008 and 2007

In the first six months of 2008, revenue from the hotel segment increased $2.7 million, or 3.4%, compared to the first six months of 2007. The increase in hotel revenues was driven by an increase of 14.8% in group room revenue and an increase in permanent and third-party on-line travel agent business year-over-year. Negatively impacting 2008 hotel revenues was an 18.5% decrease in transient revenues compared to the first six months of 2007. Affecting comparability of the variance are revenues included from the Red Lion Sacramento ($4.2 million) in the first six months of 2007, offset by revenues from our Anaheim hotel and from the Red Lion Denver Southeast ($4.2 million) in the aggregate that were not in our system of hotels during the first six months of 2007.

Revenue from the franchise and management segment decreased $0.8 million, or 50.4%, compared to the first six months of 2007. In the first six months of 2007, we received approximately $0.4 million in termination fees related to hotels that have since left our system and from a franchise application fee received from a new owner of an existing hotel in our system. In addition, in the first six months of 2008 we recorded less royalty fees as a result of having fewer hotels in our system during the comparable periods. Entertainment revenues decreased $0.9 million, or 14.7%, almost entirely from the decrease experienced in the second quarter discussed above.

Operating Expenses

Operating expenses include direct operating expenses for each of the operating segments, hotel facility and land lease expense, depreciation and amortization, gain or loss on asset dispositions and undistributed corporate expenses. In the aggregate, operating expenses from continuing operations during the three and six months ended June 30, 2008, increased $1.3 million and $5.6 million over the same periods in 2007 as provided below:

	Three months ended June 30,		**Six months ended June 30,**	
	2008	**2007**	**2008**	**2007**
	(In thousands)			
Operating Expenses From Continuing Operations				
Hotels	$ 33,452	$ 32,791	$ 63,452	$ 62,765
Franchise and management	73	133	145	396
Entertainment	2,114	2,604	5,174	5,459
Other	527	466	1,065	948
Depreciation and amortization	4,632	3,996	9,028	8,016
Hotel facility and land lease	1,860	1,737	3,646	3,451
Gain on asset dispositions, net	(33)	(49)	(140)	(239)
Undistributed corporate expenses	1,882	1,505	6,963	2,955
Total operating expenses	$ 44,507	$ 43,183	$ 89,333	$ 83,751
Hotels revenue -owned (1)	$ 32,491	$ 30,562	$ 56,700	$ 53,924
Direct margin (2)	$ 9,855	$ 9,103	$ 14,129	$ 12,843
Direct margin %	30.3%	29.8%	24.9%	23.8%
Hotels revenue- leased (1)	$ 14,202	$ 14,277	$ 25,228	$ 25,296
Direct margin (2)	$ 3,386	$ 2,945	$ 4,347	$ 3,612
Direct margin %	23.8%	20.6%	17.2%	14.3%
Franchise and management revenue	$ 445	$ 782	$ 780	$ 1,571
Direct margin (2)	$ 372	$ 649	$ 635	$ 1,175
Direct margin %	83.6%	83.0%	81.4%	74.8%

Entertainment revenue	$ 1,895	$ 2,642	$ 5,106	$ 5,989
Direct margin [2]	$ (219)	$ 38	$ (68)	$ 530
Direct margin %	-11.6%	1.4%	-1.3%	8.8%
Other revenue	$ 779	$ 731	$ 1,556	$ 1,518
Direct margin [2]	$ 252	$ 265	$ 491	$ 570
Direct margin %	32.3%	36.3%	31.6%	37.5%

(1) Continuing operations only.

(2) Revenues less direct operating expenses.

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Three Months Ended June 30, 2008 and 2007

Direct hotel expenses increased 2.0% compared to the second quarter of 2007, compared with a hotel segment revenue increase of 4.1% during the second quarter of 2008. Rooms related expenses was the driver for the increased expenditures, offset by a reduction in food and beverage costs in the quarter. Overall, the segment had a direct profit of $13.2 million compared to $12.0 million during the second quarter of 2007, a 9.9% improvement. Second quarter 2008 hotel direct operating margin improved 149 basis points to 28.4% compared to 26.9% during the same period in 2007.

Direct costs for the franchise and management segment remained unchanged at $0.1 million during both comparable periods, while the entertainment segment reported decreased expenses of $0.5 million, or 18.8%, compared to a revenue decrease of $0.7 million. During the second quarter of 2007, we recorded revenues and associated expenses from the presentation of three gross shows, compared to only one net show during the second quarter of 2008. In addition, entertainment direct costs increased $0.2 million in advertising expense related to a series of gross shows that begin late in the third quarter of 2008 and continue into the fourth. Overall, the entertainment segment reported a direct margin loss of $0.2 million during the second quarter of 2008.

Undistributed corporate expenses include general and administrative charges such as corporate payroll, legal expenses, charitable contributions, director and officers insurance, bank service charges and outside accountants and various other consultants expense. We consider these expenses to be undistributed because the costs are not directly related to our business segments and therefore are not further distributed. However, costs that can be identified with a particular segment are distributed, such as accounting, human resources and information technology, and are included in direct expenses. The $0.4 million negative variance is attributed to increased equity compensation expense, and increased outside consulting services.

Six Months Ended June 30, 2008 and 2007

Direct hotel expenses during the first six months of 2008 increased $0.7 million, or 1.1% over the first six months of 2007, compared with a hotel segment revenue increase of 3.4%. Rooms related expenses was the driver for the increased expenditures, offset by a reduction in food and beverage costs year-over-year. Overall, the segment had a direct profit of $18.5 million compared to $16.5 million during the first six months of 2007, a 12.3% improvement. During the first six months of 2008, hotel direct operating margin improved 178 basis points to 22.6% from 20.8% during the same period in 2007.

Direct costs for the franchise and management segment were lower by $0.3 million during the comparable periods, although direct margin improved to 81.4% from 74.8% during the first six months of 2007. Entertainment direct costs decreased $0.3 million, or 5.2%, compared to a revenue decrease of $0.9 million. The six month period in 2008 was negatively impacted by fewer shows presented during the second quarter of 2008, where we presented on a net basis only one show compared to the presentation of three gross shows during the second quarter of 2007. Overall, the entertainment segment reported a direct margin loss of $0.1 million in the first six months of 2008 compared to a positive direct margin during the 2007 period of $0.5 million.

Undistributed corporate expenses during the first six months of 2008 included the $3.7 million charge for separation costs discussed above, which was the most substantial contributor to the $4.0 million variance year-on-year. In addition, the negative variance can also be attributed to increased equity compensation expense and increased outside consulting services.

Income Taxes

During the second quarter of 2008, we reported income tax expense of $1.1 million compared to $1.3 million during the second quarter of 2007. During the first six months of 2008, we recognized an income tax benefit of $1.5 million, compared to an income tax expense of $0.1 million during the same period in 2007, primarily due to $1.3 million associated with the separation costs recorded upon the retirement of our former President and Chief Executive Officer. The experienced rate on pre-tax net income differed from the statutory combined federal and state tax rates primarily due to the utilization of certain incentive tax credits allowed under federal law.

Liquidity and Capital Resources

We believe that our financial position is generally strong and we feel the perceived turmoil in the capital markets has created a favorable environment for strategic buyers with strong balance sheets. We believe that our current leverage and credit ratios will allow us to access capital. Our short-term liquidity needs over the next twelve months will be met by funds generated from operating activities and by existing cash and cash equivalents of $7.9 million at June 30, 2008. To finance the May 2008 acquisition of the Red Lion Denver Hotel Southeast for $25.3 million, we utilized $23.0 million of our $50 million credit facility. At June 20, 2008, the outstanding balance was $22.0 million. We also have the ability to increase this facility to $100 million, subject to satisfaction of various conditions. At June 30, 2008, we had $3.3 million of restricted cash under securitized borrowing arrangements for future payments of furniture, fixtures and equipment, repairs, insurance premiums and real and personal property taxes. A comparative summary of our balance sheets at June 30, 2008 and December 31, 2007 is provided below:

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	June 30, 2008	December 31, 2007
Consolidated balance sheet data (in thousands):		
Cash and cash equivalent	$ 7,942	$ 15,044
Working capital (1)	$ 2,979	$ 7,559
Property and equipment, net	$287,505	$260,574
Total assets	$363,378	$344,509
Total long-term debt and credit facility	$100,898	$ 83,220
Debentures due Red Lion Hotels Capital Trust	$ 30,825	$ 30,825
Total liabilities	$182,043	$162,014
Total stockholders equity	$181,335	$182,495

(1) Represents current assets less current liabilities.

During the remaining six months of 2008, we expect cash expenditures to primarily include the funding of operating activities, interest payments on our outstanding indebtedness and additional capital expenditures of approximately $17.3 million to fund ongoing hotel improvement projects and the renovations at the Anaheim and Denver hotels. We expect to meet our long-term liquidity requirements for the funding of future property acquisitions and other investments and continued hotel and other various capital improvements through net cash provided by operations, long-term secured and unsecured indebtedness, including any unused portion of our $50 million credit facility, and joint ventures.

Operating Activities

Net cash provided by operations increased $6.8 million to $9.3 million during the first six months of 2008 compared to the 2007 period. Non-cash income statement expenses including depreciation and amortization, provision for deferred tax and stock based compensation, increased 5.4% during the first six months of 2008, offset by favorable working capital changes, including restricted cash, receivables, accruals, payables and inventories, which resulted in increased cash flow of $8.7 million during the first six months of 2008. The change in accounts payable during the first six months of 2007 was a reflection of the hotel renovations occurring during those time periods, which were not occurring to the same level at the end of 2007 or thus far during 2008. The change in accrued payroll reflects an accrued bonus related to separation costs of $2.2 million that was recorded upon the retirement of our former President and Chief Executive Officer that will not be paid until mid-August 2008. During the first six months of 2008, restricted cash held in escrow for future payments of insurance, property taxes, repairs and other items as required by debt agreements decreased $1.2 million compared to an increase of $0.6 million reflected during the first six months of 2007.

Investing Activities

Net cash used in investing activities during the first six months of 2008 totaled $33.1 million, primarily for the acquisition of the Red Lion Hotel Denver Southeast for $25.3 million in May 2008. Other additions during 2008 to property and equipment increased 8.4% from the first six months of 2007 to $10.1 million. We utilized $1.7 million of restricted cash in 2008 to fulfill our commitment to reimburse up to $3.0 million in tenant improvements at the Red Lion Hotel Sacramento in connection with its July 2007 sublease. During the first quarter of 2008, we also received approximately $0.5 million for a worker s compensation premium reimbursement and from the payoff of a long-term receivable.

During the 2007 period, net cash provided by investing activities totaled $1.8 million. During the first quarter of 2007, we liquidated all variable rate demand notes recorded at December 31, 2006, totaling $7.6 million. In the second quarter of 2007, we sold the remaining hotel included in discontinued operations and received proceeds of

$3.9 million.

Financing Activities

Net financing activities provided cash of approximately $16.7 million during the first six months of 2008 compared to $3.2 million provided during the 2007 period, primarily from the borrowing of $23.0 million from our $50 million credit facility to finance the acquisition of the Red Lion Hotel Denver Southeast. During both periods, $4.4 million and $1.1 million, respectively, was repaid in scheduled principal long-term debt payments. In addition, in June 2008 we also repaid $1.0 million of the $23.0 million drawn on our credit facility in May 2008. During the first six months of 2007, we borrowed $3.9 million in June 2007 that was later assumed by the buyers of the commercial office complex sold in September 2007. Net financing activities during the 2007 period benefited from the exercise by employees of 75,794 stock options resulting in proceeds to the company of $0.3 million. From those exercises, we issued new shares of common stock. No options were exercised during the first six months of 2008.

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In September 2007, we announced a common stock repurchase program for up to $10 million through open market purchases, block purchases or privately negotiated transactions, subject to certain conditions. Through the fourth quarter of 2007, we had repurchased 924,200 shares at a cost of $9.1 million. During January 2008, we completed our share repurchase program with the purchase of an additional 93,000 shares at an aggregate cost of $0.9 million.

At June 30, 2008, we had total debt obligations of $131.7 million, of which $68.2 million was securitized debt collateralized by individual hotels with fixed interest rates ranging from 6.7% to 8.1%. Included within outstanding debt are debentures due to the Red Lion Hotels Capital Trust of $30.8 million, which are uncollateralized and due to the trust at a fixed rate of 9.5%.

Contractual Obligations

The following table summarizes our significant contractual obligations as of June 30, 2008 (in thousands):

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt (1)	$ 131,163	$ 9,220	$ 39,771	$ 33,174	$ 48,998
Operating leases (2)	67,846	7,729	15,239	10,998	33,880
Service agreements	1,100	275	550	275	
Debentures due Red Lion Hotels Capital Trust (1)	135,270	2,928	5,857	5,857	120,628
Total contractual obligations (3)	$ 335,379	$ 20,152	$ 61,417	$ 50,304	$ 203,506

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

(2) Operating lease amounts are net of estimated sublease income of $11.3 million annually.

(3) With regard to purchase obligations, we are not party to any material agreements to purchase goods or services that are enforceable or legally

binding as to fixed or minimum quantities to be purchased or stated price terms.

In July 2007, we entered into an agreement to sublease the Red Lion Hotel Sacramento to a third party with an initial lease term expiring in 2020. In connection with the sublease agreement, we received deferred lease income of $3.0 million, which will be amortized over the life of the sublease agreement. The sublease agreement provides for annual rent payments of $1.4 million, which we have netted against lease amounts payable by us in computing the operating lease amounts shown in the above table. As part of the agreement, we have committed to reimburse the tenant for up to $3.0 million in tenant improvements and as of June 30, 2008, had spent approximately $2.6 million of that amount.

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

Off-balance Sheet Arrangements

As of June 30, 2008, we had no off-balance sheet arrangements, as defined by SEC regulations, which have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Other Matters

Franchise and Management Contracts

At June 30, 2008, our system of hotels included 18 hotels under franchise agreements, representing a total of 3,082 rooms and 138,942 square feet of meeting space. During the first quarter of 2008, the franchised property Red Lion Hotel Baton Rouge (132 rooms) joined the system, although one hotel under a management contract (254 rooms) did not renew its agreement and left our system of hotels. In April

2008, franchise agreements with three hotels expired and were not renewed, representing a total of 301 rooms. In addition, we terminated a franchise agreement with a 117-room property for non-performance.

In July 2008, we terminated a franchise agreement with the Red Lion Hotel Modesto, a 186-room property, for non-performance. With this change, we had 17 franchised hotels in the Red Lion system as of the date of this filing. All franchised hotels were required to meet Red Lion upscale brand standards by the end of 2007. The majority of hotels met the standards by the end of 2007, while some are still in the process of completing renovations. We are monitoring their work and will terminate additional hotels for non compliance if satisfactory progress does not continue.

Seasonality

Our business is subject to seasonal fluctuations, with more revenues and profits are realized from May through October than during the rest of the year. During 2007, revenues during the second and third quarters approximated 26.2% and 29.2%, respectively, of total revenues for the year, compared to revenues of 21.0% and 23.6% of total revenues during the first and fourth quarters.

Inflation

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

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and (ii) the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates. We consider a critical accounting policy to be one that is both important to the portrayal of our financial condition and results of operations and requires management s most subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our significant accounting policies are described in Note 2 of Notes to Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2007. However, we have identified our most critical accounting policies and estimates below. 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 below.

Revenue Recognition and Receivables

Revenue is generally recognized as services are provided. When we receive payment from customers before our services have been performed, the amount received is recorded as deferred revenue until the service has been completed. We recognize revenue from the following sources:

Hotels Room rental and food and beverage sales from owned and leased hotels. Revenues are recognized when our services have been performed, generally at the time of the hotel stay or guest s visit to the restaurant. This treatment is consistent with others within our industry. Our revenues are significantly impacted by global, national and regional economic conditions affecting the travel and hospitality industry, as well as the relative market share of our hotels compared with our competitors.

Franchise and Management Fees received in connection with the franchise of our brand names and management fees we have earned from managing third-party owned hotels. Franchise and management revenues are recognized as earned in accordance with the contractual terms of our existing franchise or management agreements.

Entertainment Computerized event ticketing services and promotion of Broadway style shows and other special events. Where we act as an agent and receive a net fee or commission, it is recognized as revenue in the period the services are performed. When we are the promoter of an event and are at-risk for the production, revenues and expenses are recorded in the period of the event performance.

Other Primarily from rental income received from our direct ownership interest in a retail mall in Kalispell, Montana that is attached to our Red Lion hotel.

We review the ability to collect individual accounts receivable on a routine basis. We record an allowance for doubtful accounts based on specifically identified amounts that we believe to be uncollectible and amounts that are past due beyond a certain date. The receivable is written off against the allowance for doubtful accounts if collection attempts fail. Our estimate of the allowance for doubtful accounts is impacted by, among other things, national and regional economic conditions.

Long-lived Assets

Property and equipment is stated at cost less accumulated depreciation. The assessment of long-lived assets for possible impairment requires us to make judgments regarding estimated future cash flows from the respective properties, which is dependent upon internal forecasts, estimation of the long-term rate of growth for our business, the useful life over which our cash flows will occur, the determination of real estate and prevailing market values, asset appraisals and, if available and appropriate, current estimated net sales proceeds from pending offers or net sales proceeds from previous, comparable transactions. If the expected undiscounted future cash flows are less than the net book value of the assets, the excess of the net book value over the estimated fair value is charged to current earnings.

We review the recoverability of our long-lived assets annually or more frequently as events or circumstances indicate that the carrying amount of an asset may not be recoverable. Changes to our plans, including a decision to sell, dispose of or change the intended use of an asset, could have a material impact on the carrying value of the asset.

Intangible Assets

Our intangible assets include brands and goodwill which we account for in accordance with SFAS No. 142 Goodwill and Other Intangible Assets. We do not amortize our brands and goodwill. Instead, we test for impairment annually or more frequently as events or circumstances indicate the carrying amount of an asset may not be recoverable. Our goodwill and other intangible asset impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit, subject to the same general assumptions discussed above for long-lived assets. At June 30, 2008 and December 31, 2007, our recorded goodwill and other intangible assets not subject to amortization remained unchanged at $28.0 million. While we have not recognized an impairment loss since we originally recorded goodwill, changes in our estimates and assumptions could affect, potentially materially, our financial condition or results of operations in the future.

Our other intangible assets include management, marketing and lease contracts, the value of which is amortized on a straight-line basis over the weighted average life of the agreements and totaled $11.3 million and $11.6 million, respectively, at June 30, 2008 and December 31, 2007. The assessment of these contracts requires us to make certain judgments, including estimated future cash flow from the applicable properties.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements itself. However, this statement applies under other accounting pronouncements that require or permit fair value measurements and may therefore change current practice if an alternative measure of fair value has been used. SFAS No. 157 applies an exchange price notion for fair value consistent with previously preferred practice, with a focus on exit price and market-based measurements as compared to entry price and entity-specific measurements. SFAS No. 157 is effective for financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued proposed FSP FAS 157-2, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 partially defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of the FSP. Effective January 1, 2008, we adopted SFAS No. 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2.

We do not use derivative instruments, nor do we hold or issue financial instruments for the purpose of trading. Our financial instruments currently consist of cash and cash equivalents, restricted cash, accounts receivable, cash included in other assets, current liabilities and debt obligations. The carrying amounts for cash and cash equivalents, current investments, accounts receivable, current liabilities and variable rate long-term debt are reasonable estimates of their fair values. Therefore, we experienced no impact on the carrying value of any asset or liability recognized at adoption and do not expect the adoption of this standard to have a material effect on our financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, the objective of which is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement, which is consistent with FASB s long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. While SFAS No. 159 became effective on January 1, 2008, we did not elect the fair value measurement option for any of our financial assets or liabilities.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)) and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51 (SFAS No. 160). SFAS No. 141(R) will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 141(R) and SFAS No. 160 are effective for annual periods beginning after December 15, 2008, and early adoption is not permitted. We are currently evaluating the impact that the adoption of SFAS No. 141(R) and SFAS No. 160 could have on our consolidated financial statements.

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In March 2008, the FASB issues SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161), an amendment of FASB No. 133. SFAS No. 161 will improve the transparency about where derivative instruments are located in financial statements, how derivative instruments and related hedge items are currently accounted for under Statement 133, and how these instruments ultimately affect an entity s financial position, performance, and cash flow. It requires that entities disclose the fair value of derivative instruments and their gains and losses, disclose features that are credit risk related, and cross reference footnotes to enable financial statement end users to locate significant derivative instrument information more easily. Statement No. 161 is effective for all financial statements that are issued for fiscal years and interim periods after November 15, 2008 but entities are encouraged to adopt its requirements early. We do not currently engage in hedging activities and do not currently have derivative instruments recorded within our consolidated financial statements. Thus, we do not expect the adoption of SFAS No. 161 to have any effect on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162), which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP to improve the quality of standards and the standard-setting process, including improving the conceptual framework, codifying existing accounting literature, transitioning to a single standard-setter regime, and converging FASB and standards of the International Accounting Standards Board. SFAS No. 162 is effective 60 days following the SEC s approval of the PCAOB amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We believe there has been no material change to our market risk since the end of our last fiscal year. At June 30, 2008, $110.0 million of our outstanding debt was subject to currently fixed interest rates and until recently, we have not been exposed to market risk from changes in interest rates. In May 2008, we borrowed $23.0 million on our revolving credit facility that accrues interest that range from 150 to 225 basis points over LIBOR, with an option for a base rate loan based upon the federal fund rate or prime rate. We manage our exposure to interest rate risk by monitoring available financing alternatives, although do not foresee any significant changes in our exposure to fluctuations in interest rates or in how such exposure is managed in the future.

The below table summarizes our debt obligations at June 30, 2008 on our consolidated balance sheet (in thousands). During the first six months of 2008, recurring scheduled principal payments of $4.4 million were made that were included as debt obligations at December 31, 2007, as well as an additional $1.0 million on the $23.0 million borrowed in May 2008.

	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value
Long-term debt								
Fixed rate	$1,225	$2,597	$24,785	$24,911	$1,638	$45,742	$100,898	$104,206
Average interest rate							7.77%	
Debentures due Red Lion Hotels Capital Trust	$	$	$	$	$	$30,825	$ 30,825	$ 30,586
Average interest rate							9.50%	

Item 4. Controls and Procedures

As of June 30, 2008, we carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective to ensure that material information required to be disclosed by us in the reports filed or submitted by us under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within time periods specified in Securities and Exchange Commission rules and forms.

There were no changes in internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f), during the second quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

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Item 1A. Risk Factors

In addition to the risks described below, and 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, 2007, which could materially affect our business, financial condition or future results. The risks described below and 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.

The recent unsolicited proposal from Columbia Pacific Opportunity Fund LP may create uncertainty that may adversely affect our business.

On June 27, 2008, we received an unsolicited, non-binding and conditional preliminary indication of interest proposal from Columbia Pacific Opportunity Fund LP (Columbia Pacific) to acquire all of our outstanding shares of common stock. Our Board of Directors, consistent with its fiduciary duties and in consultation with its financial and legal advisors, is in the process of carefully evaluating this preliminary indication of interest and is committed to pursuing the course of action that it believes will maximize value for all of our shareholders. The Board of Directors has also retained an outside investment banking firm to assist it in evaluating strategic options for maximizing our shareholder value. The review and consideration of the Columbia Pacific offer (and any alternate proposals or options that may be proposed) may be a significant distraction for management and employees and may require the expenditure of significant time and financial resources. Columbia Pacific s unsolicited offer may create uncertainty for our employees, and this uncertainty may adversely affect our ability to retain key employees and to hire new talent. Additionally, if the Board of Directors ultimately decides to reject the Columbia Pacific proposal, the market price of our common stock may decline. These consequences, alone or in combination, may adversely affect our business and overall operating results.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

At the annual meeting of stockholders on May 22, 2008, the following actions were taken with the noted results:

	Votes For	Votes Witheld	Total Votes
Election of Directors			
Richard L. Barbieri	16,669,734	419,755	17,089,489
Jon E. Eliassen	15,104,919	1,984,570	17,089,489
Anupam Narayan	15,355,046	1,734,443	17,089,489

Terms for directors Peter F. Stanton and Ryland P. Skip Davis expire at the 2009 Annual Meeting of Shareholders, and for directors Donald K. Barbieri and Ronald R. Taylor, the 2010 Annual Meeting of Shareholders.

	Votes For	Votes Against	Total Abstain	Total Votes
Ratification of Appointment of BDO Seidman, LLP as Independent Registered Public Accounting Firm	15,292,238	1,796,649	602	17,089,489

	Votes For	Votes Against	Total Abstain	Broker Non-Votes	Total Votes
	13,198,240	1,507,674	12,835	2,370,740	17,089,489

Approval of 2008 Employee
Stock Purchase Plan

Item 5. Other Information

None.

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Item 6. Exhibits

Index to Exhibits

Exhibit Number	Description
10.1	Executive Employment Agreement dated June 5, 2008 between the Registrant and John M. Taffin
10.2	Executive Employment Agreement dated June 5, 2008 between the Registrant and Anthony F. Dombrowik
10.3	Executive Employment Agreement dated June 5, 2008 between the Registrant and George H. Schweitzer
10.4	Executive Employment Agreement dated April 22, 2008 between the Registrant and Thomas L. McKeirnan
10.5	Executive Employment Agreement dated April 22, 2008 between the Registrant and Anupam Narayan
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13(a)-14(b)
32.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13(a)-14(b)

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SIGNATURES

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

Red Lion Hotels Corporation
Registrant

Signature	Title	Date
By: **/s/ Anupam Narayan** Anupam Narayan	President and Chief Executive Officer (Principal Executive Officer)	August 7, 2008
By: **/s/ Anthony F. Dombrowik** Anthony F. Dombrowik	Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	August 7, 2008