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RED LION HOTELS CORP

FORM 8-K
(Current report filing)

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

Current Report

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

November 3, 2011 (November 2, 2011)
Date of Report (Date of earliest event reported)

RED LION HOTELS CORPORATION

(Exact Name of Registrant as Specified in Charter)

Washington	001-13957	91-1032187
(State or Other Jurisdiction of Incorporation)	(Commission file number)	(I.R.S. Employer Identification No.)

201 W. North River Drive
Suite 100
Spokane, Washington 99201
(Address of Principal Executive Offices, Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry Into a Material Definitive Agreement

The information disclosed below under "Item 2.01 - Completion of Acquisition or Disposition of Assets" is hereby incorporated by reference.

Item 2.01 Completion of Acquisition or Disposition of Assets

Since 2002, a subsidiary of the registrant has leased 11 hotels under a master lease with an affiliate of iStar Financial, Inc. ("iStar"). On November 2, 2011, two subsidiaries of the registrant signed and closed agreements to purchase ten of these hotels for $37 million in cash. The following are the hotels that were purchased (except as indicated, fee interests in the hotels were purchased):

Red Lion Hotel Boise Downtowner (part fee, part leasehold interest)
Red Lion Inn Missoula
Red Lion Inn Bend
Red Lion Hotel Coos Bay
Red Lion Hotel Eugene (leasehold interest)
Red Lion Hotel Medford
Red Lion Hotel Pendleton
Red Lion Hotel Kelso/Longview
Red Lion Hotel Wenatchee
Red Lion Hotel Sacramento at Arden Village

The Red Lion Hotel Vancouver at the Quay in Washington, the remaining hotel under the master lease, will remain leased under a new lease with iStar.

A copy of the November 3, 2011 press release announcing the transaction is included as Exhibit 99.1 to this report.

Item 9.01 Financial Statements and Exhibits.

(b) Pro Forma Financial Information.

Attached hereto as Exhibit 99.2 and incorporated by reference herein is unaudited pro forma consolidated financial information of the registrant that gives effect to the acquisition of the hotels disclosed in Item 2.01 of this Form 8-K.

(d) Exhibits.

Exhibit No.	Exhibit
99.1	Press Release dated November 3, 2011
99.2	Unaudited pro forma consolidated financial information

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 hereunto duly authorized.

RED LION HOTELS CORPORATION

Dated: November 3, 2011

By: /s/ Thomas L. McKeirnan
Thomas L. McKeirnan
Senior Vice President,
General Counsel and Secretary

Exhibit 99.1

Contact: Pam Scott
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Red Lion Hotels Acquires
10 Previously Leased Hotels

Spokane, WA, November 3, 2011 – Red Lion Hotels Corporation (NYSE: RLH) announced today that as part of a global agreement among Red Lion, iStar Financial Inc. and Hilton Hotels, Red Lion paid $37 million to purchase 10 hotels formerly leased from a subsidiary of iStar. The purchase price was funded with cash proceeds received from the sale of the Red Lion Hotel on Fifth Avenue, $32 million of which was paid through a tax deferred exchange. The transaction will reduce the company's annual lease obligations by approximately $4.3 million per year. In conjunction with the transaction, the company also assigned its sub-lease with Hilton Hotels to an affiliate of iStar Financial.

"Eliminating our master lease with iStar Financial has been a critical initiative of our ongoing balance sheet restructuring and we are pleased to have negotiated a favorable buyout," said Jon E. Eliassen, President and Chief Executive Officer of Red Lion Hotels Corporation. "In addition to the annual lease savings, it allowed us to put to use, on a tax-deferred basis, a significant portion of our cash proceeds from the sale of the Red Lion Hotel on Fifth Avenue. We now have complete flexibility to either sell or invest in these hotels, which we believe will be key to building long term value for our shareholders."

The hotels purchased in the iStar transaction include: Red Lion Hotel Boise Downtowner, Red Lion Inn Missoula, Red Lion Inn Bend; Red Lion Hotel Coos Bay, Red Lion Hotel Eugene, Red Lion Hotel Medford, Red Lion Hotel Pendleton, Red Lion Hotel Kelso/Longview, Red Lion Hotel Wenatchee and Red Lion Hotel Sacramento at Arden Village.

Excluded from the transaction was the Red Lion Hotel Vancouver at the Quay in Washington, which the company will continue to lease from iStar Financial Inc.

About Red Lion Hotels Corporation:

Red Lion Hotels Corporation is a hospitality and leisure Company primarily engaged in the ownership, operation and franchising of midscale hotels under its Red Lion® brand. As of September 30, 2011, the RLH hotel network was comprised of 44 hotels located in eight states and one Canadian province, with 8,457 rooms and 424,387 square feet of meeting space. The Company also owns and operates an entertainment and event ticket distribution business. For more information, please visit the Company's website at www.redlion.com .

Exhibit 99.2

RED LION HOTELS CORPORATION UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma consolidated financial information gives effect to the purchase of ten hotels formerly leased from an affiliate of iStar Financial, Inc., as described in Item 2.01 of this Form 8-K (the "Transaction").

The following unaudited pro forma condensed consolidated balance sheet as of June 30, 2011 gives effect to the Transaction as if it occurred on June 30, 2011. The information included in this unaudited pro forma condensed consolidated balance sheet was derived from the registrant's unaudited June 30, 2011 historical consolidated balance sheet included in its Quarterly Report filed on Form 10-Q for the quarter ended June 30, 2011.

The following unaudited pro forma consolidated statement of operations for the fiscal year ended December 31, 2010 gives effect to the Transaction as if it occurred at the beginning of that fiscal year. The information included in this unaudited pro forma consolidated statement of operations was derived from the registrant's historical audited consolidated statement of operations for the fiscal year ended December 31, 2010, which was included in the registrant's Annual Report filed on Form 10-K for the fiscal year ended December 31, 2010.

The following unaudited pro forma consolidated statement of operations for the six months ended June 30, 2011 gives effect to the Transaction as if it occurred at the beginning of that six-month period. The information included in this unaudited pro forma consolidated statement of operations was derived from the registrant's unaudited consolidated statement of operations for the six months ended June 30, 2011, which was included in the registrant's Quarterly Report filed on Form 10-Q for the quarter ended June 30, 2011.

The historical consolidated financial information has been adjusted to give effect to pro forma events that are directly attributable to the Transaction, are factually supportable and, in the case of the pro forma consolidated statements of operations, have a recurring impact. The following unaudited pro forma consolidated financial information has been prepared by management of the registrant for illustrative purposes only. The unaudited pro forma consolidated financial information is not intended to represent or be indicative of the registrant's financial position or results of operations in future periods or the results that actually would have been realized had the registrant included the effect of the Transaction during the specified periods.

The assumptions and estimates used and pro forma adjustments derived from such assumptions and estimates are based on currently available information. Management of the registrant believes such assumptions and estimates are reasonable under the circumstances; however, actual results based on final allocations of the purchase price may differ. The unaudited pro forma consolidated financial information, including the notes thereto, is qualified in its entirety by reference to, and should be read in conjunction with, the historical consolidated financial statements of the registrant included in its Form 10-K filed with the SEC on March 16, 2011 and its Form 10-Q filed with the SEC on August 8, 2011.

RED LION HOTELS CORPORATION
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2011

(Amounts in thousands)

	Historical Condensed Consolidated Red Lion Hotels Corporation	Purchase of Leased Properties	Unaudited Pro Forma
ASSETS			
Current assets:			
Cash and cash equivalents	$ 46,818	$ (37,150) (1)	$ 9,668
Restricted cash	4,707		4,707
Accounts receivable, net	6,532		6,532
Inventories	1,519		1,519
Prepaid expenses and other	3,090		3,090
Assets held for sale	9,805		9,805
Total current assets	72,471	(37,150)	35,321
Property, equipment and intangible assets, net	235,535	37,150 (1)	272,685
Goodwill and other assets, net	28,740		28,740
Total assets	$ 336,746	$ —	$336,746
LIABILITIES			
Current liabilities:			
Accounts payable	$ 4,893		$ 4,893
Accrued payroll and related benefits	5,023		5,023
Accrued interest payable	255		255
Advance deposits	931		931
Other accrued expenses	11,554		11,554
Current portion of long-term debt	24,594		24,594
Total current liabilities	47,250	—	47,250
Long-term debt, due after one year	50,901		50,901
Deferred income	4,891		4,891
Deferred income taxes	16,955		16,955
Debentures due Red Lion Hotels Capital Trust	30,825		30,825
Total liabilities	150,822	—	150,822
Commitments and contingencies			
STOCKHOLDERS' EQUITY			
Red Lion Hotels Corporation stockholders' equity			
Preferred stock - 5,000,000 shares authorized; $0.01 par value; no shares issued or outstanding	—		—
Common stock - 50,000,000 shares authorized; $0.01 par value; 19,067,541 shares issued and outstanding	191		191
Additional paid-in capital, common stock	148,002		148,002
Retained earnings	37,624	—	37,624
Total Red Lion Hotels Corporation stockholders' equity	185,817	—	185,817
Noncontrolling interest	107	—	107
Total equity	185,924	—	185,924
Total liabilities and stockholders' equity	$ 336,746	$ —	$336,746

RED LION HOTELS CORPORATION
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

(Amounts in thousands, except per share data)

	Historical Consolidated Red Lion Hotels Corporation	Purchase of Leased Properties	Unaudited Pro Forma
Revenue:			
Hotels	$ 148,568	$ —	$148,568
Franchise	3,209	—	3,209
Entertainment	9,236	—	9,236
Other	2,481	—	2,481
Total revenues	163,494	—	163,494
Operating expenses:			
Hotels	116,574	—	116,574
Franchise	3,118	—	3,118
Entertainment	7,769	—	7,769
Other	1,598	—	1,598
Depreciation and amortization	20,885	806 (2)	21,691
Impairment Loss	5,733	—	5,733
Hotel facility and land lease	5,840	(4,324) (3)	1,516
Gain (loss) on asset dispositions, net	(25)	—	(25)
Undistributed corporate expenses	6,304	—	6,304
Total expenses	167,796	(3,518)	164,278
Operating income (loss)	(4,302)	3,518	(784)
Other income (expense):			
Interest expense	(9,073)	—	(9,073)
Other income, net	409	—	409
Income (loss) before taxes	(12,966)	3,518	(9,448)
Income tax expense (benefit)	(4,736)	1,281 (4)	(3,455)
Net income (loss) from continuing operations	(8,230)	2,237	(5,993)
Less: Net income (loss) attributable to noncontrolling interest	10	—	10
Net income (loss) from continuing operations attributable to Red Lion Hotels Corporation	$ (8,220)	$ 2,237	$ (5,983)
Earnings per share - basic and diluted			
Net income (loss) from continuing operations	$ (0.45)		$ (0.32)
Weighted average shares - basic and diluted	18,485		18,485

RED LION HOTELS CORPORATION
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2011

(Amounts in thousands, except per share data)

	Historical Consolidated Red Lion Hotels Corporation	Purchase of Leased Properties	Unaudited Pro Forma
Revenue:			
Hotels	$ 69,434	$ —	$ 69,434
Franchise	1,652	—	1,652
Entertainment	7,440	—	7,440
Other	1,126	—	1,126
Total revenues	79,652	—	79,652
Operating expenses:			
Hotels	57,782	—	57,782
Franchise	1,964	—	1,964
Entertainment	6,752	—	6,752
Other	828	—	828
Depreciation and amortization	10,063	403 (2)	10,466
Hotel facility and land lease	4,298	(2,162) (3)	2,136
Gain (loss) on asset dispositions, net	(33,583)	—	(33,583)
Undistributed corporate expenses	2,897	—	2,897
Total expenses	51,001	(1,759)	49,242
Operating income (loss)	28,651	1,759	30,410
Other income (expense):			
Interest expense	(4,573)	—	(4,573)
Other income, net	385	—	385
Income (loss) before taxes	24,463	1,759	26,222
Income tax expense (benefit)	10,474	753 (4)	11,227
Net income (loss)	13,989	1,006	14,995
Less: Net income (loss) attributable to noncontrolling interest	(102)	—	(102)
Net income (loss) attributable to Red Lion Hotels Corporation	$ 13,887	$ 1,006	$ 14,893
Earnings per share - basic			
Net income (loss)	$ 0.74		$ 0.79
Net income (loss) attributable to Red Lion Hotels Corporation	$ 0.73		$ 0.78
Weighted average shares - basic and diluted	18,999		18,999
Earnings per share - diluted			
Net income (loss)	$ 0.73		$ 0.78
Net income (loss) attributable to Red Lion Hotels Corporation	$ 0.72		$ 0.78
Weighted average shares - basic and diluted	19,163		19,163

RED LION HOTELS CORPORATION
ADJUSTMENTS TO UNAUDITED
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(1) To record cash used to acquire the 10 previously leased hotels and add them to the property and equipment accounts on the balance sheet. The amount includes the purchase price and associated acquisition costs.

(2) To record the depreciation expense associated with the acquired depreciable assets. The purchase price was allocated as follows: Land - $20.9 million and Buildings - $16.1 million. Depreciation on the buildings was calculated on a straight line basis assuming a 20 year life.

(3) To reflect the reduction of lease expense associated with the 10 previously leased hotels.

(4) Adjustment to reflect the income tax effect of the pro forma adjustments at the applicable tax rates. The tax rates used were 36.4% for the year ended December 31, 2010 and 42.8% for the six months ended June 30, 2011. The difference in tax rate of the two periods is primarily attributable to the disposal of goodwill recorded in June of 2011. This goodwill did not have any tax basis, which created a permanent difference in our tax provision calculation, increasing our effective tax rate for the period.