RED LION HOTELS CORP

FORM 10-Q
(Quarterly Report)

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Address	201 W NORTH RIVER DRIVE SUITE 100
	SPOKANE, Washington 99201
Telephone	509-459-6100
CIK	0001052595
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Sector	Services
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

OR

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

For the transition period from _____to _____

Commission file number: 001-13957

RED LION HOTELS CORPORATION

(Exact name of registrant as specified in its charter)

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

(509)459-6100
(Registrant's telephone number, including area code)

WESTCOAST HOSPITALITY CORPORATION

(Former name, changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

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

As of November 7, 2005 there were 13,127,200 shares of the registrant's common stock outstanding.

RED LION HOTELS CORPORATION

Form 10-Q
For the Quarter Ended September 30, 2005

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PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements***

Red Lion Hotels Corporation
Consolidated Balance Sheets (unaudited)
September 30, 2005 and December 31, 2004

	September 30, 2005	December 31, 2004
	(In thousands, except share data)	
Assets:		
Current assets:		
Cash and cash equivalents	$ 27,327	$ 9,577
Restricted cash	8,863	4,092
Accounts receivable, net	10,053	8,464
Inventories	1,792	1,831
Prepaid expenses and other	2,147	3,286
Assets held for sale:		
Assets of discontinued operations	42,567	61,757
Other assets held for sale	715	1,599
Total current assets	93,464	90,606
Property and equipment, net	229,080	223,132
Goodwill	28,042	28,042
Intangible assets, net	13,050	13,641
Other assets, net	8,727	9,191
Total assets	$ 372,363	$ 364,612
Liabilities:		
Current liabilities:		
Accounts payable	$ 4,128	$ 4,841
Accrued payroll and related benefits	5,068	4,597
Accrued interest payable	672	700
Advance deposits	250	188
Other accrued expenses	14,948	7,322
Long-term debt, due within one year	3,581	7,455
Liabilities of discontinued operations	14,058	22,879
Total current liabilities	42,705	47,982
Long-term debt, due after one year	127,145	125,756
Deferred income	7,958	8,524
Deferred income taxes	15,977	15,992
Minority interest in partnerships	9,044	2,548
Debentures due Red Lion Hotels Capital Trust	47,423	47,423
Total liabilities	250,252	248,225
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; 13,127,200 and 13,064,626 shares issued and outstanding	131	131
Additional paid-in capital, common stock	84,825	84,467
Retained earnings	37,155	31,789
Total stockholders' equity	122,111	116,387
Total liabilities and stockholders' equity	$ 372,363	$ 364,612

Red Lion Hotels Corporation
Consolidated Statements of Operations (unaudited)
For the Three Months and Nine Months Ended September 30, 2005 and 2004

	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
	(In thousands, except per share data)			
Revenue:				
Hotels	$ 43,021	$ 42,295	$ 112,786	$ 109,726
Franchise and management	810	699	2,228	2,021
Entertainment	1,828	2,533	7,246	7,951
Real estate	1,258	1,234	3,716	4,171
Other	298	296	931	870
Total revenues	47,215	47,057	126,907	124,739
Operating expenses:				
Hotels	31,417	30,920	89,503	87,422
Franchise and management	145	360	408	823
Entertainment	1,607	2,349	6,396	6,998
Real estate	961	799	2,689	2,504
Other	248	195	709	607
Depreciation and amortization	2,950	2,657	8,671	7,733
Hotel facility and land lease	1,718	1,728	5,203	5,506
Gain on asset dispositions, net	(550)	(133)	(857)	(529)
Undistributed corporate expenses	1,058	672	3,061	2,305
Total expenses	39,554	39,547	115,783	113,369
Operating income	7,661	7,510	11,124	11,370
Other income (expense):				
Interest expense	(3,607)	(3,661)	(10,806)	(10,164)
Minority interest in partnerships, net	(168)	(55)	(153)	(11)
Other income, net	374	226	459	480
Income from continuing operations before income taxes	4,260	4,020	624	1,675
Income tax expense	1,449	1,371	33	411
Net income from continuing operations	2,811	2,649	591	1,264
Discontinued operations:				
Income from operations of discontinued business units, net of income tax expense of $685, $457, $1,137 and $372, respectivly	1,245	849	2,073	691
Net gain on disposal of discontinued business units, net of income tax expense of $1,487	2,702	—	2,702	—
Income from discontinued operations	3,947	849	4,775	691
Net income	6,758	3,498	5,366	1,955
Preferred stock dividend	—	—	—	(377)
Income applicable to common shareholders	$ 6,758	$ 3,498	$ 5,366	$ 1,578

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

Red Lion Hotels Corporation
Consolidated Statements of Operations (unaudited), (continued)
For the Three Months and Nine Months Ended September 30, 2005 and 2004

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(In thousands, except per share data)			
Earnings per common share:				
Basic				
Income applicable to common shareholders before discontinued operations	$ 0.22	$ 0.20	$ 0.05	$ 0.07
Income on discontinued operations	0.30	0.07	0.36	0.05
Income applicable to common shareholders	$ 0.52	$ 0.27	$ 0.41	$ 0.12
Diluted				
Income applicable to common shareholders before discontinued operations	$ 0.22	$ 0.20	$ 0.05	$ 0.07
Income on discontinued operations	0.29	0.06	0.36	0.05
Income applicable to common shareholders	$ 0.51	$ 0.26	$ 0.41	$ 0.12
Weighted average shares — basic	13,120	13,059	13,096	13,043
Weighted average shares — diluted	13,445	13,345	13,317	13,330

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

Red Lion Hotels Corporation
Consolidated Statements of Cash Flows (unaudited)
For the Nine Months Ended September 30, 2005 and 2004

	Nine months ended September 30, 2005	2004
	(In thousands)	
Operating activities:		
Net income	$ 5,366	$ 1,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,774	9,574
Gain on disposition of property, equipment and other assets, net	(752)	(530)
Gain on disposition of discontinued operations, net	(4,189)	—
Deferred income tax provision	(15)	2,047
Minority interest in partnerships	153	(68)
Equity in investments	53	(89)
Compensation expense related to stock issuance	138	—
Provision for doubtful accounts	160	188
Change in current assets and liabilities:		
Restricted cash	(2,105)	320
Accounts receivable	(1,920)	(1,635)
Inventories	80	103
Prepaid expenses and other	1,061	(742)
Accounts payable	(682)	(1,443)
Accrued payroll and related benefits	261	1,185
Accrued interest payable	(41)	25
Other accrued expenses and advance deposits	7,818	3,411
Net cash provided by operating activities	14,160	14,301
Investing activities:		
Purchases of property and equipment	(13,615)	(19,069)
Proceeds from disposition of property and equipment	4,808	198
Proceeds from disposition of discontinued operations	14,938	—
Proceeds from disposition of investment	—	94
Investment in Red Lion Hotels Capital Trust	—	(1,423)
Advances to Red Lion Hotels Capital Trust	(20)	(2,116)
Distributions from equity investee	117	449
Proceeds from collections under note receivable	493	1,725
Other, net	82	30
Net cash provided by (used in) investing activities	6,803	(20,112)

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

Red Lion Hotels Corporation
Consolidated Statements of Cash Flows (unaudited), (continued)
For the Nine Months Ended September 30, 2005 and 2004

	Nine months ended September 30, 2005	2004
	(In thousands)	
Financing activities:		
Proceeds from note payable to bank	50	11,000
Repayment of note payable to bank	(50)	(11,000)
Proceeds from debenture issuance	—	47,423
Repurchase and retirement of preferred stock	—	(29,412)
Proceeds from long-term debt	3,875	83
Repayment of long-term debt	(7,164)	(3,335)
Proceeds from issuance of common stock under employee stock purchase plan	151	113
Preferred stock dividend payments	—	(1,011)
Proceeds from option exercises	69	140
Additions to deferred financing costs	(318)	(50)
Net cash provided by (used in) financing activities	(3,387)	13,951
Net cash in discontinued operations	174	(224)
Change in cash and cash equivalents:		
Net increase in cash and cash equivalents	17,750	7,916
Cash and cash equivalents at beginning of period	9,577	7,884
Cash and cash equivalents at end of period	$ 27,327	$ 15,800
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 11,904	$ 11,427
Income taxes	$ 13	$ 16
Non-cash investing and financing activities:		
Sale of equipment under note receivable	$ 37	$ —
Note receivable on disposition of discontinued operations	$ 300	$ —
Preferred stock dividends accrued	$ —	$ 377
Options converted to property and equipment	$ —	$ 10,128
Debt assumed on acquisition of property and equipment	$ —	$ 7,942

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

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, management, development and franchising of mid-scale and upper mid-scale, full service hotels under its Red Lion brand. Effective September 19, 2005 the Company changed its name from WestCoast Hospitality Corporation to Red Lion Hotels Corporation.

As of September 30, 2005, the hotel system contained 66 hotels located in 11 states and one Canadian province, with more than 11,600 rooms and 564,000 square feet of meeting space. The Company managed 39 of these hotels, consisting of 23 owned hotels, 13 leased hotels and three third-party owned hotels. The remaining 27 hotels were owned and operated by third-party franchisees.

The Company is also engaged in entertainment and real estate operations. Through the entertainment division, which includes TicketsWest.com, Inc., the Company engages in event ticket distribution and promotion and presents a variety of entertainment productions. The real estate division engages in the traditional real estate related services that the Company has pursued since its predecessor was originally founded in 1937, including developing, managing and acting as a broker for sales and leases of commercial and multi-unit residential properties.

The Company was incorporated in the State of Washington on April 25, 1978. 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 98% ownership of Red Lion Hotels Limited Partnership ("RLHLP"). The financial statements also include an equity method investment in a 19.9% owned real estate venture, and certain cost method investments in various entities included as other assets, over which the Company does not exercise significant influence.

In July 2005 the Company sold a 50% interest in a retail and hotel complex, but continues to consolidate this operation for financial statement purposes. Through October 2004 the Company maintained a 50% interest in another real estate limited partnership. In November 2004, the Company acquired the remaining 50% ownership from the partner. Lastly, during 2004 the Company created a trust, of which it owns a 3% interest. This entity is treated as an equity method investment and is considered a variable interest entity under FIN-46(R) "Consolidation of Variable Interest Entities," as revised.

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

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"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as permitted by such rules and regulations. The balance sheet as of December 31, 2004 has been compiled from the audited balance sheet as of such date. The Company believes that the disclosures included herein are adequate; however, these consolidated statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2004 previously filed with the SEC on Form 10-K.

In the opinion of management, these unaudited consolidated financial statements contain all of the adjustments of a normal and recurring nature necessary to present fairly the consolidated financial position of the Company at September 30, 2005 and the consolidated results of operations and cash flows for the three and nine month periods ended September 30, 2005 and 2004. The results of operations for the periods presented may not be indicative of those which may be expected for a full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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. Accordingly, ultimate results could differ materially from those estimates.

3. Assets Held For Sale and Discontinued Operations

In connection with the November 2004 announcement of plans to invest $40.0 million to improve comfort, freshen décor and upgrade technology at our hotels, the Company implemented a plan to divest 11 non-strategic owned hotels, one real estate office building and certain other non-core properties including condominium units and three parcels of excess land (collectively these assets are referred to herein as “the divestment properties”). Each of the divestment properties meets the criteria to be classified as an asset held for sale. In addition, the activities of those 11 hotels and the real estate office building are considered discontinued operations under generally accepted accounting principles. Depreciation of these assets, if previously appropriate, has been suspended.

During the third quarter of 2005, we completed the sale of six of the hotels, with gross aggregate proceeds of $25.4 million. The resulting gain on disposition of discontinued operations was $5.6 million. In addition, during the third quarter of 2005 we recorded an impairment of $1.4 million on one remaining hotel property, as we are proceeding to close the sale of this property at a price below the net carrying value of the assets. The net tax impact of these transactions was $1.5 million of expense. The net overall impact of these transactions was a net gain of $2.7 million. Each of the remaining properties continue to be listed with a broker with experience in the hotel industry.

A summary of the assets and liabilities of discontinued operations is as follows (in thousands):

	September 30, 2005			December 31, 2004		
	Hotel Properties	Office Building	Combined	Hotel Properties	Office Building	Combined
Cash and cash equivalents	$ 126	$ 34	$ 160	$ 326	$ 8	$ 334
Restricted cash	—	—	—	166	—	166
Accounts receivable, net	906	13	919	699	145	844
Inventories	234	—	234	305	—	305
Prepaid expenses and other	302	37	339	251	17	268
Property and equipment, net	26,447	13,071	39,518	45,033	13,032	58,065
Other assets, net	178	1,219	1,397	379	1,396	1,775
Assets of discontinued operations	$ 28,193	$ 14,374	$ 42,567	$ 47,159	$ 14,598	$ 61,757
Accounts payable	$ 214	$ 38	$ 252	$ 174	$ 47	$ 221
Accrued payroll and related benefits	194	—	194	404	2	406
Accrued interest payable	8	64	72	44	68	112
Advanced deposits	17	—	17	15	—	15
Other accrued expenses	434	76	510	318	64	382
Long-term debt	2,459	10,554	13,013	10,862	10,881	21,743
Liabilities of discontinued operations	$ 3,326	$ 10,732	$ 14,058	$ 11,817	$ 11,062	$ 22,879

A summary of the results of operations for the discontinued operations is as follows in thousands):

	Three Months Ended September 30, 2005			Three Months Ended September 30, 2004		
	Hotel Properties	Office Building	Combined	Hotel Properties	Office Building	Combined
Revenues	$ 6,789	$ 815	$ 7,604	$ 8,021	$ 910	$ 8,931
Operating expenses	(5,068)	(296)	(5,364)	(6,099)	(471)	(6,570)
Depreciation and amortization	(8)	(27)	(35)	(461)	(165)	(626)
Gain on asset dispositions	5,613	—	5,613	1	—	1
Impairment loss	(1,424)	—	(1,424)	—	—	—
Interest expense	(82)	(193)	(275)	(221)	(200)	(421)
Other expense, net	—	—	—	(12)	—	(12)
Minority interest in partnerships	—	—	—	3	—	3
Income tax expense	(2,066)	(106)	(2,172)	(431)	(26)	(457)
Net income	$ 3,754	$ 193	$ 3,947	$ 801	$ 48	$ 849

	Nine Months Ended September 30, 2005			Nine Months Ended September 30, 2004		
	Hotel Properties	Office Building	Combined	Hotel Properties	Office Building	Combined
Revenues	$ 17,705	$ 2,444	$ 20,149	$ 19,157	$ 2,657	$ 21,814
Operating expenses	(14,887)	(936)	(15,823)	(16,421)	(1,269)	(17,690)
Depreciation and amortization	(23)	(80)	(103)	(1,353)	(488)	(1,841)
Gain on asset dispositions	5,625	—	5,625	1	—	1
Impairment loss	(1,424)	—	(1,424)	—	—	—
Interest expense	(439)	(586)	(1,025)	(681)	(607)	(1,288)
Other expense, net	—	—	—	(12)	—	(12)
Minority interest in partnerships	—	—	—	79	—	79
Income tax expense	(2,326)	(298)	(2,624)	(270)	(102)	(372)
Net income	$ 4,231	$ 544	$ 4,775	$ 500	$ 191	$ 691

4. Credit Facility

On February 9, 2005, the Company modified its existing bank credit facility with Wells Fargo Bank, N.A. by entering into a First Amended and Restated Credit Agreement. The amended and restated credit agreement includes a revolving credit facility with a total of $20.0 million in borrowing capacity for working capital purposes. This includes a $4.0 million line-of-credit secured by the Company's personal property and two hotels ("New Line A") and a $16.0 million line of credit secured by the Company's personal property and seven hotels that the Company is holding for sale ("New Line B").

Interest under both New Line A and New Line B is set at 1% over the bank's prime rate. If the Company sells any of the hotels securing New Line B, the Company will pay, to the extent of any outstanding borrowings, a release price that is based on a percentage of the specific hotel's appraised value, and the amount available for borrowing under New Line B will be reduced proportionally.

The Credit Agreement contains certain restrictions and financial covenants, including covenants regarding minimum tangible net worth, maximum funded debt to EBITDA ratio and EBITDA coverage ratio. Except for release payments used to reduce the outstanding principal balance of New Line B in connection with sales of hotels securing New Line B, neither New Line A nor New Line B requires any principal payments until their respective maturity dates. New Line A has a maturity date of January 3, 2007. New Line B has a maturity date of June 30, 2006.

At September 30, 2005 there were no amounts outstanding under this credit agreement.

5. Long-Term Debt

On March 31, 2005, the Company repaid approximately $3.6 million of principal due under a term debt arrangement. The note was collateralized by real property including an office building, carried an interest rate of 9.0%, and was due on April 1, 2010. However the note was pre-payable on April 1, 2005 without penalty.

Also on March 31, 2005 the Company borrowed approximately $3.8 million under a term debt arrangement collateralized by the same real estate property discussed above. In addition, the Company may borrow another $6.2 million under the agreement to provide for the redevelopment of the office building. The note carries a 6.25% interest rate, fixed for the construction period and for the first five years of the term. After that, it is adjustable in five year intervals based upon treasury rates. The note is being paid interest only through the construction period and is due in full on or before October 1, 2032.

In June 2005, the Company extended the due date on an existing term loan with a bank secured by a hotel having a principal balance of $3.8 million by three months in order to facilitate a refinance of the balance with another lender. In October 2005 that debt was refinanced and at September 30, 2005, amounts due beyond one year under the new loan totaling $3.6 million are included as a long-term liability.

6. Business Segments

Effective April 1, 2005 the Company re-organized the presentation of what it considers its operating segments under the provisions of FASB Statement No. 131 “Disclosures about Segments of an Enterprise and Related Information.” The new presentation is reflected in the accompanying financial statements and notes thereto, and all comparative periods have been reclassified to conform to the current presentation.

The Company has four primary operating segments: (1) hotels; (2) franchise and management; (3) entertainment; and (4) real estate. Other activities, consisting 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, are also aggregated for reporting purposes. Management reviews and evaluates the operating segments exclusive of interest expense. Therefore, interest expense is not allocated to the segments. Selected information with respect to the segments is as follows (in thousands):

Continuing Operations

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenues:				
Hotels	$43,021	$42,295	$112,786	$109,726
Franchise and management	810	699	2,228	2,021
Entertainment	1,828	2,533	7,246	7,951
Real estate	1,258	1,234	3,716	4,171
Other	298	296	931	870
	$47,215	$47,057	$126,907	$124,739
Operating income:				
Hotels	$ 7,707	$ 7,517	$ 11,542	$ 10,773
Franchise and management	472	150	1,244	628
Entertainment	109	86	513	664
Real estate	431	257	943	1,130
Other	(1,058)	(500)	(3,118)	(1,825)
	$ 7,661	$ 7,510	$ 11,124	$ 11,370

Discontinued Operations

	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Revenues:				
Hotels	$ 6,789	$ 8,021	$ 17,705	$ 19,157
Real estate	815	910	2,444	2,657
	$ 7,604	$ 8,931	$ 20,149	$ 21,814
Operating income:				
Hotels	$ 5,902	$ 1,462	$ 6,996	$ 1,384
Real estate	492	274	1,428	900
	$ 6,394	$ 1,736	$ 8,424	$ 2,284

7. Earnings Per Common Share

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted earnings per common share computations for the three months and nine months ended September 30, 2005 and 2004 (in thousands, except per share amounts):

	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Numerator				
Basic:				
Net income from continuing operations	$ 2,811	$ 2,649	$ 591	$ 1,264
Preferred stock dividend	—	—	—	(377)
Income applicable to common shareholders before discontinued operations	2,811	2,649	591	887
Income on discontinued operations	3,947	849	4,775	691
Income applicable to common shareholders	$ 6,758	$ 3,498	$ 5,366	$ 1,578
Diluted:				
Net income from continuing operations	$ 2,811	$ 2,649	$ 591	$ 1,264
OP Unit effect	57	—	46	—
Preferred stock dividend	—	—	—	(377)
Income applicable to common shareholders before discontinued operations	2,868	2,649	637	887
Income on discontinued operations	3,947	849	4,775	691
Income applicable to common shareholders	$ 6,815	$ 3,498	$ 5,412	$ 1,578
Denominator:				
Weighted average shares — basic	13,120	13,059	13,096	13,043
Weighted average shares — diluted	13,445	13,345	13,317	13,330
Earnings per common share:				
Basic —				
Income applicable to common shareholders before discontinued operations	$ 0.22	$ 0.20	$ 0.05	$ 0.07
Income on discontinued operations	0.30	0.07	0.36	0.05
Income applicable to common shareholders	$ 0.52	$ 0.27	$ 0.41	$ 0.12
Earnings per common share:				
Diluted —				
Income applicable to common shareholders before discontinued operations	$ 0.22	$ 0.20	$ 0.05	$ 0.07
Income on discontinued operations	0.29	0.06	0.36	0.05
Income applicable to common shareholders	$ 0.51	$ 0.26	$ 0.41	$ 0.12

For the three months ended September 30, 2005, there were 39,113 outstanding options to purchase common shares that were considered dilutive, out of the 1,018,895 options outstanding as of that date. For the three months ended September 30, 2004, none of the 593,033 outstanding options to purchase common shares were considered dilutive. In addition, the 286,161 convertible operating partnership ("OP") units were considered dilutive and were therefore included in the calculation of diluted weighted average shares for both those same periods.

For the nine months ended September 30, 2005, there were 28,606 outstanding options to purchase common shares that were considered dilutive, out of the 1,018,895 options outstanding as of that date. For the nine months ended September 30, 2004, 752 of the 593,033 outstanding options to purchase common shares were considered dilutive. In addition, the 286,161 convertible OP units were considered dilutive and were therefore included in the calculation of diluted weighted average shares for both those same periods.

8. Stock Based Compensation

As permitted by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), as amended by Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure" ("SFAS No. 148"), the Company has chosen to measure compensation cost for stock-based employee compensation plans using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and to provide the disclosure only requirements of SFAS No. 123, including frequent and prominent disclosure of stock-based compensation expense.

The Company has chosen not to record compensation expense for its stock-based employee plans using fair value measurement provisions in the statement of operations. Had compensation cost for the plans been determined based on the fair value at the grant dates for awards under the plans, reported net income and earnings per share would have been changed to the pro forma amounts indicated below (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Reported net income to common shareholders	$ 6,758	$ 3,498	$ 5,366	$ 1,578
Add back: stock-based employee compensation expense, net of related tax effects	92	—	98	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(151)	(36)	(276)	(120)
Pro Forma	$ 6,699	$ 3,462	$ 5,188	$ 1,458
Basic earnings per share:				
Reported net income	$ 0.52	$ 0.27	$ 0.41	$ 0.12
Stock-based employee compensation, fair value	—	—	(0.01)	(0.01)
Pro Forma	$ 0.52	$ 0.27	$ 0.40	$ 0.11
Diluted earnings per share:				
Reported net income	$ 0.51	$ 0.26	$ 0.41	$ 0.12
Stock-based employee compensation, fair value	—	—	(0.01)	(0.01)
Pro Forma	$ 0.51	$ 0.26	$ 0.40	$ 0.11

During the first nine months of 2005, a total of 31,118 options to purchase common shares were exercised by employees or directors under the terms of their option agreements.

9. Real Estate Transaction

In July 2005, the Company closed the sale of a 50% interest in its Kalispell Center retail and hotel complex to an unrelated third party for $6.3 million, resulting in a net gain of $293,000. The Company continues to manage the retail component of the complex. The Company also is leasing back the WestCoast Kalispell Center Hotel, which will be re-branded the Red Lion Kalispell Hotel after undergoing improvements to expand and renovate the hotel. For financial statement purposes, the Company continues to consolidate the Kalispell Center retail and hotel complex.

10. Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), “Share-Based Payment” (“SFAS No. 123(R)”). This Statement is a revision to SFAS No. 123, “Accounting for Stock-Based Compensation,” and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” SFAS No. 123(R) requires the measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render service. In April 2005, the U.S. Securities and Exchange Commission (“SEC”) and the FASB delayed the mandatory adoption date of this standard. The Company will now adopt SFAS No. 123(R) on January 1, 2006, requiring compensation cost to be recognized as expense for the portion of outstanding unvested awards, based on the grant-date fair value of those awards calculated using an option pricing model. The Company is evaluating the impact, if any, that these provisions of SFAS No. 123(R) may have on the consolidated financial statements but does not expect them to have a material impact.

In addition, SFAS No. 123(R) will require the Company to recognize compensation expense, if applicable, for the difference between the fair value of the Company’s common stock and the actual purchase price of that stock under the Company’s Employee Stock Purchase Plan. The Company cannot estimate what the final impact to the consolidated statement of operations will be in the future, because it will depend on, among other things, when and if shares are purchased and certain variables known only when the plan is purchasing shares.

In March 2005, the SEC released Staff Accounting Bulletin (“SAB”) No. 107, “Share-Based Payment.” SAB No. 107 provides the SEC staff position regarding the application of SFAS No. 123(R). SAB No. 107 contains interpretive guidance related to the interaction between SFAS No. 123(R) and certain SEC rules and regulations, as well as provides the staff’s views regarding the valuation of share-based payment arrangements for public companies. SAB No. 107 also highlights the importance of disclosures made related to the accounting for share-based payment transactions. The Company is evaluating the impact, if any, that these provisions of SAB No. 107 may have on the consolidated financial statements but does not expect them to have a material impact.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3.” This Statement replaces APB Opinion No. 20, “Accounting Changes”, and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements”, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. The provisions of SFAS No. 154 are effective for fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS No. 154 in 2006 to have a material impact on its results of operations or financial position.

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

This quarterly report on Form 10-Q includes forward-looking statements. We have based these statements on our current expectations and projections about future events. When words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "seek," "should," "will" and similar expressions or their negatives are used in this quarterly report, these are forward-looking statements. Many possible events or factors, including those discussed in "Risk Factors Relating to Our Business" beginning on page 12 of our 2004 annual report filed on Form 10-K, 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 context requires, its wholly and partially owned subsidiaries, and "Red Lion" refers to Red Lion Hotels Corporation. The term "the system" or "system 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 consolidated financial statements and the condensed notes thereto and the other financial information included elsewhere in this quarterly report.

Overview

Notes: Effective April 1, 2005, the company re-organized the presentation of what it considers its operating segments under the provisions of FASB Statement No. 131 "Disclosures about Segments of an Enterprise and Related Information." The new presentation is reflected in the accompanying financial statements, notes thereto, and this Management's Discussion and Analysis of Financial Condition and Results of Operations. All comparative periods have been reclassified to conform to the current presentation.

Also, effective September 19, 2005 the company changed its name as specified in its corporate charter in the State of Washington from WestCoast Hospitality Corporation to Red Lion Hotels Corporation.

We operate in four reportable segments: hotels; franchise and management; entertainment; and real estate. 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 our brands 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 brands and access to our central services programs. These programs, which may generate additional revenues, include the reservation system, guest loyalty program, national and regional sales, revenue management tools, quality inspections, advertising and brand standards. It also reflects revenue from management fees charged to the owners of our managed 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. The real estate segment generates revenue from owning, managing, leasing and developing commercial retail and office properties and multi-unit residential properties.

Hospitality Industry Performance Measures

We believe that the following performance measures, which are widely used in the hospitality industry and appear throughout this report, are important to our discussion of operating performance:

- Total available rooms represents the number of rooms available multiplied by the number of days in the reported period. We use total available rooms as a measure of capacity in our system of hotels.
- Average occupancy represents total paid rooms occupied divided by total available rooms. We use average occupancy as a measure of the utilization of capacity in our system of hotels.

- Revenue per available room, or RevPAR, represents total room and related revenues divided by total available rooms. We use RevPAR as a measure of performance yield in our system of hotels.
- Average daily rate, or ADR, represents total room revenues divided by the total number of paid rooms occupied by hotel guests. We use ADR as a measure of room pricing in our system of hotels.

Comparable hotels are hotels that have been owned, leased, managed or franchised by us for more than one year. Throughout this report, unless otherwise stated, RevPAR, ADR and average occupancy statistics are calculated using statistics for comparable hotels. When presented in this report, the above performance measures will be identified as belonging to a particular market segment, system wide, or for continuing operations versus discontinued operations or total combined operations.

Operating Results and Statistics

A summary of our consolidated results, balance sheet data and hotel statistics for the three months and nine months ended September 30, 2005 and 2004 is as follows (in thousands, except hotel statistics and earnings per share data):

	Three Months Ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Consolidated statement of operation data:				
Hotels revenue [1]	$ 43,021	$ 42,295	$ 112,786	$ 109,726
Hotels direct expense [1]	31,417	30,920	89,503	87,422
Direct margin	$ 11,604	$ 11,375	$ 23,283	$ 22,304
Direct margin %	27.0%	26.9%	20.6%	20.3%
Franchise and management revenue	$ 810	$ 699	$ 2,228	$ 2,021
Franchise and management direct expense	145	360	408	823
Direct margin	$ 665	$ 339	$ 1,820	$ 1,198
Direct margin %	82.1%	48.5%	81.7%	59.3%
Entertainment revenue	$ 1,828	$ 2,533	$ 7,246	$ 7,951
Entertainment direct expense	1,607	2,349	6,396	6,998
Direct margin	$ 221	$ 184	$ 850	$ 953
Direct margin %	12.1%	7.3%	11.7%	12.0%
Real estate [1]	$ 1,258	$ 1,234	$ 3,716	$ 4,171
Real estate direct expense [1]	961	799	2,689	2,504
Direct margin	$ 297	$ 435	$ 1,027	$ 1,667
Direct margin %	23.6%	35.3%	27.6%	40.0%
Total revenues	$ 47,215	$ 47,057	$ 126,907	$ 124,739
Total expenses	$ 39,554	$ 39,547	$ 115,783	$ 113,369
Operating income	$ 7,661	$ 7,510	$ 11,124	$ 11,370
Undistributed corporate expenses	$ 1,058	$ 672	$ 3,061	$ 2,305
Interest expense	$ 3,607	$ 3,661	$ 10,806	$ 10,164
Income tax expense	$ 1,449	$ 1,371	$ 33	$ 411
Net income	$ 6,758	$ 3,498	$ 5,366	$ 1,955
Preferred stock dividend	$ —	$ —	$ —	$ (377)
Income applicable to common shareholders	$ 6,758	$ 3,498	$ 5,366	$ 1,578
Earnings per common share — basic	$ 0.52	$ 0.27	$ 0.41	$ 0.12
Earnings per common share — diluted	$ 0.51	$ 0.26	$ 0.41	$ 0.12
Weighted average shares outstanding — basic	13,120	13,059	13,096	13,043
Weighted average shares outstanding — diluted	13,445	13,345	13,317	13,330

(1) Represents results of continuing operations.

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Common size operations data:				
Revenues:				
Hotels	91.1%	89.9%	88.9%	88.0%
Franchise and management	1.7%	1.5%	1.8%	1.6%
Entertainment	3.9%	5.4%	5.7%	6.4%
Real estate	2.7%	2.6%	2.9%	3.3%
Other	0.6%	0.6%	0.7%	0.7%
Total revenues	100.0%	100.0%	100.0%	100.0%
Total expenses	83.8%	84.0%	91.2%	90.9%
Operating income	16.2%	16.0%	8.8%	9.1%
Undistributed corporate expenses	2.2%	1.4%	2.4%	1.8%
Interest expense	7.6%	7.8%	8.5%	8.1%
Income tax expense	3.1%	2.9%	0.0%	0.3%
Net income	14.3%	7.4%	4.2%	1.6%
Income applicable to common shareholders	14.3%	7.4%	4.2%	1.3%
Other operating data:				
EBITDA	$17,428	$12,690	$28,638	$ 23,764
EBITDA from continuing operations	$10,817	$10,338	$20,101	$ 19,572
Net cash provided by operating activities	$ 6,013	$10,434	$14,160	$ 14,301
Net cash provided by (used in) investing activities	$14,380	$ (3,667)	$ 6,803	$(20,112)
Net cash provided by (used in) financing activities	$ (1,029)	$ (1,086)	$ (3,387)	$ 13,951
System Wide Hotel statistics:				
Average occupancy	70.8%	70.3%	62.8%	61.1%
ADR	$ 78.92	$ 75.39	$ 74.49	$ 72.36
RevPAR	$ 55.90	$ 52.97	$ 46.78	$ 44.19

	September 30, 2005	December 31, 2004
Consolidated balance sheet data:		
Working capital (1)	$ 22,250	$ 3,746
Property and equipment, net	$ 229,080	$ 223,132
Total assets	$ 372,363	$ 364,612
Total long-term debt	$ 130,726	$ 133,211
Debentures due Red Lion Hotels Capital Trust	$ 47,423	$ 47,423
Total liabilities	$ 250,252	$ 248,225
Total stockholders' equity	$ 122,111	$ 116,387

(1) Represents current assets before assets of discontinued operations less current liabilities before liabilities of discontinued operations.

Key hotel segment revenue data from continuing operations are as follows (in thousands):

	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Hotels segment revenues:				
Room revenues	$ 30,882	$ 29,620	$ 76,023	$ 71,850
Food and beverage revenues	10,961	11,313	33,514	34,226
Amenities and other department revenues	1,178	1,362	3,249	3,650
Total hotels segment revenues	$ 43,021	$ 42,295	$ 112,786	$ 109,726

System wide performance statistics are as follows:

	Three months ended September 30, 2005			Three months ended September 30, 2004		
	Average Occupancy	ADR	RevPAR	Average Occupancy	ADR	RevPAR
Owned or Leased Hotels:						
Continuing Operations	73.0%	$79.47	$57.99	73.3%	$75.90	$55.64
Discontinued Operations	63.8%	69.20	44.16	59.8%	65.63	39.28
	71.6%	78.13	55.96	71.3%	74.64	53.24
Combined System Wide	70.8%	$78.92	$55.90	70.3%	$75.39	$52.97
Red Lion Hotels (Owned, Leased, Managed and Franchised)	70.6%	$77.81	$54.96	70.8%	$74.51	$52.72

	Nine months ended September 30, 2005			Nine months ended September 30, 2004		
	Average Occupancy	ADR	RevPAR	Average Occupancy	ADR	RevPAR
Owned or Leased Hotels:						
Continuing Operations	64.8%	$74.35	$48.16	62.8%	$72.20	$45.35
Discontinued Operations	48.2%	65.23	31.47	46.7%	62.95	29.39
	62.3%	73.32	45.71	60.5%	71.15	43.01
Combined System Wide	62.8%	$74.49	$46.78	61.1%	$72.36	$44.19
Red Lion Hotels (Owned, Leased, Managed and Franchised)	63.6%	$73.31	$46.62	61.9%	$71.46	$44.26

EBITDA represents net income (or loss) before interest expense, income tax benefit or expense, 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 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 or loss as defined by generally accepted accounting principles in the United States and such information should not be considered as an alternative to net income, cash flows from operations or any other measure of performance prescribed by generally accepted accounting principles in the United States.

We use EBITDA to measure the financial performance of our owned and leased hotels because it excludes interest, taxes, depreciation and amortization, which bear little or no relationship to 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 our company 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. It 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, which is the most comparable financial measure calculated and presented in accordance with GAAP. EBITDA does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity.

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
EBITDA from continuing operations	$ 10,817	$ 10,338	$ 20,101	$ 19,572
Income tax expense — continuing operations	(1,449)	(1,371)	(33)	(411)
Interest expense — continuing operations	(3,607)	(3,661)	(10,806)	(10,164)
Depreciation and amortization — continuing operations	(2,950)	(2,657)	(8,671)	(7,733)
Net income from continuing operations	2,811	2,649	591	1,264
Income on discontinued operations	3,947	849	4,775	691
Net income	$ 6,758	$ 3,498	$ 5,366	$ 1,955
EBITDA	$ 17,248	$ 12,690	$ 28,638	$ 23,764
Income tax expense	(3,621)	(1,827)	(2,662)	(783)
Interest expense	(3,884)	(4,082)	(11,836)	(11,452)
Depreciation and amortization	(2,985)	(3,283)	(8,774)	(9,574)
Net income	$ 6,758	$ 3,498	$ 5,366	$ 1,955

Results of Operations

The Three Months Ended September 30, 2005 Compared with the Three Months Ended September 30, 2004

Revenues

Hotel revenues from continuing operations for the three months ended September 30, 2005 increased 1.7% or $726 thousand, to $43.0 million compared to $42.3 million for the three months ended September 30, 2004. The increase was primarily due to growth of about $1.3 million in room revenue between comparable periods, or 4.3%. RevPAR increased 4.2% to $57.99. ADR was up 4.7% to $79.47 in the third quarter of 2005 as compared to the third quarter of 2004. Average occupancy for owned and leased hotels that are part of continuing operations is down 0.3 percentage points. The growth in room revenues was driven by an increase in transient and contract business, while convention, group, and promotional business decreased. These increases are partially offset by declines of $352 thousand in food and beverage revenue as compared to the third quarter of 2004, primarily due to a decrease in banquet revenue related to the decrease in convention group business. Incidental revenues from guest amenities and other sources of revenue for the hotel segment are down $184 thousand between comparative quarters.

Many of our hotels continue to show increases in occupancy and ADR, which is driving strong profit growth for our rooms departments and strength in our hotels overall. As we invest $40.0 million to renovate our Red Lion hotels, we expect positive impacts from these upgrades. We have completed renovations including new plush pillow top mattresses and upgraded linen and pillow packages and have begun room renovations in several hotels including floor coverings, case goods, bathroom upgrades and shower heads. Guest reaction to renovations in the hotels has been positive and the aggregate ADR for those properties under renovation has increased.

During the second quarter of 2005 we completed installation of the new MICROS Opera Property Management System in 15 of our Red Lion hotels. During the third quarter of 2005 we began to see the benefits of this system. This system shares a single database with the company’s central reservations system allowing for improvement of delivered rates and availability. These property management systems and our redesigned websites further enhance our ability to manage reservations generated through electronic channels and help position us to take advantage of internet travel bookings.

The first six months of 2005 have been a period of strong growth in the hotels segment and during the third quarter of 2005 we continued to experience strong demand in several of our continuing markets. These results appear consistent with the overall national trends in the lodging industry.

Our strategy has been to initially increase occupancy through strategic marketing and investment in our properties, and then to increase rate as demand increases for our rooms. For six consecutive quarters through June 2005, we increased occupancy. We built on this demand by increasing the average daily rate during the first three quarters of 2005 in the majority of our markets. We believe that the combined effect of this strategy is that RevPAR has increased at a faster rate than many of our direct competitors over the past year.

Our brand strengthening initiatives, marketing efforts and technological upgrades are achieving desired results. We continue to receive a higher percentage of our reservations through electronic distribution systems that include our own branded websites and third-party Internet channels (alternative distributions system or ADS). Our central reservations and distribution management technology allows us to manage the yield on these ADS channels on a real-time, hotel-by-hotel basis. We have merchant model agreements with leading ADS providers, which typically entitle the provider to keep a fixed percentage of the price paid by the customer for each room booked. This allows us to maximize the yield of a typically lower rated market segment. Our focus on driving customers to our branded website has made it one of our fastest growing sources of online reservations during the third quarter of 2005, allowing us to further maximize our yield on those types of bookings. Our success reflects our management of these distribution channels and our merchant model agreements.

Through 2004 and into 2005 we continued to increase bookings as a result of our focus on direct sales, the “Stay Comfortable” advertising campaign and the “We Promise or We Pay” branded website booking initiative. The “We Promise or We Pay” initiative is designed to encourage guests to book on our branded website, redlion.com. Through this initiative, we guarantee to our guests that our branded websites will provide the lowest rate available compared to non-opaque ADS channels.

In 2004, we initiated our capital improvement program which significantly improved room amenities with new pillow-top beds and an upgraded pillows and linens package. We also launched a marketing campaign designed specifically to increase awareness of the Net4Guests and room amenity upgrade programs known as “Stay Comfortable.” Net4Guests provides hotel guests and GuestAwards frequency program members access to free high speed wireless internet. We continued the Stay Comfortable program through the first three quarters of 2005.

Revenue from the franchise and management segment is up $111 thousand, related primarily to the addition of two franchise contracts in place during the comparative periods and increases in RevPAR at franchised hotels. Entertainment segment revenue decreased $705 thousand or 27.8% between comparative quarters. This decrease is primarily the result of not having any WestCoast Entertainment shows scheduled during the third quarter of 2005 while four such shows were presented in the third quarter of 2004, offset by increased ticketing distribution fees in our Oregon/Western Washington region. Revenue from our real estate segment is up $24 thousand, with activity similar to that of the third quarter of 2004.

Operating Expenses

In aggregate, operating expenses for both the quarters ended September 30, 2005 and 2004 were approximately $39.6 million. This compares to a 0.3% increase in total revenues between comparative periods. Operating expenses include direct operating expenses for each of the operating segments, hotel facility and land lease expense, depreciation, amortization, gain or loss on asset dispositions, conversion expenses, if any, and undistributed corporate expenses. Resulting operating income was $7.7 million for the three months ended September 30, 2005 as compared to $7.5 million for the three months ended September 30, 2004.

Direct hotel expenses increased $497 thousand or 1.6% between comparative quarters. The direct margin for the hotels was 27.0% for the third quarter of 2005 compared to 26.9% in the third quarter of 2004. Increased revenue and higher margin resulted in a 2.0% increase in the hotels’ profitability. Room expenses accounted for approximately $380 thousand of the increase in direct hotel expenses, this is proportionate with increases in in rooms revenue.

Direct costs for the franchise and management segment decreased $215 thousand, related to lower labor, travel and advertising costs in 2005. The entertainment segment direct costs decreased $742 thousand related to the comparative number of WestCoast Entertainment shows presented as discussed above. Real estate segment direct expenses from continuing operations were up $162 thousand primarily related to an increase in payroll and operating costs at the owned commercial facilities that are still a part of continuing operations.

Facility and land lease expense was relatively flat between comparable periods. Depreciation and amortization increased $293 thousand or 11.0% between the third quarter of 2005 and the third quarter of 2004. The increase is primarily related to increased capital investment. For the quarter ended September 30, 2005 the net gain on asset dispositions includes a $293 thousand gain on the previously announced sale of a 50% interest in the Kalispell Hotel and Mall property to an unrelated third party and $79 thousand of gains related to the sale of our Idaho condominium units held for sale. Both the quarters ended September 30, 2005 and 2004, include gains related to the recognition of deferred gains over time on both a previously sold office building and a hotel.

Undistributed corporate expenses for the three months ended September 30, 2005 were $1.1 million compared to $672 thousand for the three months ended September 30, 2004. The increase of $386 thousand was primarily due to costs associated with directors’ compensation plan and higher payroll costs.

Undistributed corporate expenses include general and administrative charges such as corporate payroll, legal expenses, contributions, directors and officers insurance, bank service charges, outside accountants and consultant expenses, and investor relations charges. We consider these expenses to be “undistributed” because the costs are not directly related to our business segments and therefore are not distributed to those segments. In contrast, costs more directly related to our business segments such as accounting, human resources and information technology expenses are distributed out to operating segments and are included in direct expenses.

Interest Expense

Interest expense for the three months ended September 30, 2005 was $3.6 million compared to $3.7 million for the three months ended September 30, 2004. The average pre-tax interest rate on debt during both the third quarter of 2005 and 2004 was 7.9%. We had no borrowings during either comparative period on our revolving credit facility.

Income Taxes

Income tax expense on continuing operations for the third quarter of 2005 and 2004 was $1.4 million, or approximately 34% of pre-tax net income. The experience rate on pre-tax net income differs from the statutory combined federal and state tax rates primarily due to the utilization of certain incentive tax credits allowed under federal law.

Discontinued Operations

In connection with the November 2004 announcement of plans to invest $40.0 million to improve comfort, freshen décor and upgrade technology at our hotels, we implemented a plan to divest 11 non-strategic owned hotels, one real estate office building and certain other non-core properties including five condominium units and three parcels of excess land. (collectively these assets are referred to herein as “the divestment properties”). Each of the divestment properties is classified as an asset held for sale. In addition, the activities of those 11 hotels and the real estate office building are considered discontinued operations under generally accepted accounting principles. Therefore, no depreciation expense is recorded on these properties.

We completed the sale of six of the 11 hotels during the third quarter of 2005, with gross aggregate proceeds of $25.4 million, resulting in a gain on disposition of discontinued operations of $5.6 million. In addition, during the third quarter of 2005 we recorded an impairment of $1.4 million on one remaining hotel property as we are proceeding to close the sale of this property at a price below the net carrying value of the assets. The net tax impact of these transactions was $1.5 million of expense. The net overall impact of these transactions was a net gain of $2.7 million.

The net effect on consolidated earnings of the operating activities of the discontinued operations was $1.2 million for the three months ended September 30, 2005, including income tax expense. This includes $1.6 million of aggregate net income from the 11 hotels and $299 thousand of income from the office building, offset by $685 thousand in tax expense. This compares to the three months ended September 30, 2004 for which the discontinued operations had a net impact on consolidated earnings of an $849 thousand net income net of tax expense. The 2004 results include the aggregate activity of the 11 hotels of $1.2 million in net income and $74 thousand in net income from the office building, offset by $457 thousand in income tax expense.

Net Income and Income Applicable to Common Shareholders

The net income increased $3.3 million between comparable quarters. The higher income was the result of three components. First, the $2.7 million of net gain, net of income taxes, on the disposal of discontinued operations. Second, a $162 thousand increase in income from continuing operations based primarily upon better performance in the hotels segment, and for the other reasons described above. Lastly, operations classified as discontinued reflected better net performance by $396 thousand.

Earnings Per Share

The diluted earnings per share for the three months ended September 30, 2005 was $0.51 compared to earnings of $0.26 per share for the three months ended September 30, 2004. The net income applicable to common shareholders increased $3.3 million as described above, while the number of weighted average common shares outstanding in both periods remained relatively consistent.

The Nine Months Ended September 30, 2005 Compared with the Nine Months Ended September 30, 2004

Revenues

Hotel segment revenues from continuing operations for the nine months ended September 30, 2005 increased 2.8% or $3.1 million, to $112.8 million compared to $109.7 million for the nine months ended September 30, 2004. The increase was primarily due to growth of about $4.2 million in room revenue between comparable periods, or 6.0%. Average occupancy for owned and leased hotels that are part of continuing operations is up 2.0 percentage points in the first nine months of 2005 as compared to the first nine months of 2004. In addition, ADR was up 3.0% to $74.35. The resulting $48.16 RevPAR from owned and leased hotels that are part of 2005 continuing operations was 6.2% higher than RevPAR of $45.35 in the first nine months of 2004. These increases are partially offset by declines of $712 thousand in food and beverage revenue as compared to the first nine months of 2004, primarily due to the leasing out of one of our hotel restaurants and lower banquet revenues. Incidental revenues from guest amenities and other sources of revenue for the hotel segment are down $401 thousand between comparative periods.

As noted above, the hotels continue to show increases in occupancy and increases in ADR which are driving strong profit growth for our rooms departments and strength in our hotels overall. As we invest $40.0 million to renovate our Red Lion hotels, we expect positive impacts from these upgrades. We have completed renovations including new plush pillow top mattresses and upgraded linen and pillow packages and have begun room renovations in several hotels including floor coverings, case goods, bathroom upgrades and shower heads. Guest reaction to renovations in the hotels has been positive and the aggregate ADR for those properties under renovation has increased.

During the second quarter of 2005 we completed installation of the new MICROS Opera Property Management System in 15 of our Red Lion hotels. During the third quarter of 2005 we began to see the benefits of this system. This system shares a single database with the company’s central reservations system allowing for improvement of delivered rates and availability. These property management systems and our redesigned websites further enhance our ability to manage reservations generated through electronic channels and help position us to take advantage of internet travel bookings.

The first six months of 2005 have been a period of strong growth in the hotels segment and during the third quarter of 2005 we continued to experience strong demand in several of our markets. These results appear consistent with the overall national trends in the lodging industry.

Our strategy has been to initially increase occupancy through strategic marketing and investment in our properties, and then to increase rate as demand increases for our rooms. For six consecutive quarters through June 2005, we increased occupancy. We built on this demand by increasing the average daily rate during the first three quarters of 2005 in the majority of our markets. We believe that the combined effect of this strategy is that RevPAR has increased at a faster rate than many of our direct competitors over the past year.

Our brand strengthening initiatives, marketing efforts and technological upgrades are achieving desired results. We continue to receive a higher percentage of our reservations through electronic distribution systems that include our own branded websites and third-party Internet channels (alternative distributions system or ADS). Our central reservations and distribution management technology allows us to manage the yield on these ADS channels on a real-time, hotel-by-hotel basis. We have merchant model agreements with leading ADS providers, which typically entitle the provider to keep a fixed percentage of the price paid by the customer for each room booked. This allows us to maximize the yield of a typically

lower rated market segment. Our focus on driving customers to our branded website has made it one of our fastest growing sources of online reservations during the third quarter of 2005, allowing us to further maximize our yield on those types of bookings. Our success reflects our management of these distribution channels and our merchant model agreements.

Through 2004 and into 2005 we continued to increase bookings as a result of our focus on direct sales, the “Stay Comfortable” advertising campaign and the “We Promise or We Pay” branded website booking initiative. The “We Promise or We Pay” initiative is designed to encourage guests to book on our branded website, redlion.com. Through this initiative, we guarantee to our guests that our branded websites will provide the lowest rate available compared to non-opaque ADS channels.

In 2004, we initiated our capital improvement program which significantly improved room amenities with new pillow-top beds and an upgraded pillows and linens package. We also launched a marketing campaign designed specifically to increase awareness of the Net4Guests and room amenity upgrade programs known as “Stay Comfortable.” Net4Guests provides hotel guests and GuestAwards frequency program members access to free high speed wireless internet. We continued the Stay Comfortable program through the first three quarters of 2005.

Revenue from the franchise and management segment is up $207 thousand, related primarily to two additional franchise agreements in place during the second quarter of 2005, partially offset by one less management contract in place during the comparative periods and franchise termination fees received in 2005. Entertainment segment revenue is down 8.9% for the comparative periods. The first quarter of 2005 showed a decrease compared to the same quarter in 2004 in both ticketing distribution fees and entertainment show revenues, however strong performance in both areas during the second quarter of 2005 compared to the same period in 2004 resulting in the equalization. In the third quarter 2005 there were no WestCoast Entertainment shows scheduled compared to four shows presented during the third quarter in 2004 which accounted for $854 thousand of decrease revenues, where ticketing revenue increased $527 thousand for the comparative period. Revenue from our real estate segment is down $455 thousand, due to lower commission fees (primarily in the first quarter of 2005), lower development fees between comparative periods, and lower real estate management fees for low income housing projects during 2005.

Operating Expenses

In aggregate, operating expenses for the nine months ended September 30, 2005 increased $2.4 million or 2.1% to $115.8 million from $113.3 million for the same period in 2004. This compares to a 1.7% increase in total revenues between comparative periods. Operating expenses include direct operating expenses for each of the operating segments, hotel facility and land lease expense, depreciation, amortization, gain or loss on asset dispositions, conversion expenses, if any, and undistributed corporate expenses. Resulting operating income was $11.1 million for the nine months ended September 30, 2005 as compared to $11.3 million for the nine months ended September 30, 2004.

Direct hotel expenses increased $2.1 million or 2.4% between comparative periods. The direct margin for the hotels grew from 20.3% of hotel revenues for the first nine months of 2004 to 20.6% of revenues in the first nine months of 2005. The increased revenue and higher margin resulted in a 4.4%, or $979 thousand, increase in hotel profitability. Hotel room related costs accounted for approximately $1.3 million of the increase in direct hotel expenses, commensurate with the increase in the number of occupied rooms. Food and beverage costs were down $167 thousand, in step with the decrease in revenues and lower food costs. The remainder of the increase in direct hotels segment costs resulted from increased sales related costs, including marketing charges and compensation related to revenue performance, increased utility costs, benefits expense related to the company’s health care plan and other administrative costs directly related to the hotels.

Direct costs for the franchise and management segment decreased $415 thousand, related to lower labor, travel and advertising costs in 2005. The entertainment segment direct costs decreased $602 thousand during the first nine months of 2005. Costs related to show expenses for WestCoast Entertainment accounted for a decrease of $1.2 million of expense due the number of shows presented as discussed earlier, however ticketing related expenses increased $331 thousand for the comparative period. Real

estate segment direct expenses from continuing operations increased 7.4% primarily related to payroll and operational costs for the company's commercial properties.

Facility and land lease expense was lower between comparable periods due to the reduced lease expense from having purchased a previously leased property. Depreciation and amortization increased $938 thousand or 12.1% between the first nine months of 2005 and the first nine months of 2004. The increase is primarily related to our capital improvement plan. For both the nine month periods ended September 30, 2005 and 2004, the net gain recognized on asset disposals included the recognition of deferred gains over time on both a previously sold office building and a hotel. A gain of $293 thousand was recorded for the sale of 50% interest in our Kalispell Center and Mall to an unrelated third party and a $79 thousand gain related to the sale of four condominiums during the third quarter of 2005. During the current year, gains were partially offset by a small loss on certain personal property disposed of as part of the company's reinvestment plan.

Undistributed corporate expenses for the nine months ended September 30, 2005 were $3.0 million compared to $2.3 million for the nine months ended September 30, 2004. The increase of $756 thousand was primarily due to costs associated with compliance with the Sarbanes-Oxley Act paid to outside consultants, higher payroll costs and costs associated with options issued to directors as part of the Board compensation plan. Undistributed corporate expense includes general and administrative charges such as corporate payroll, legal expenses, contributions, directors and officers insurance, bank service charges, outside accountants and consultants' expense, and investor relations charges. We consider these expenses to be "undistributed" because the costs are not directly related to our business segments and therefore are not distributed to those segments. In contrast, costs more directly related to our business segments such as accounting, human resources and information technology expenses are distributed out to operating segments and are included in direct expenses.

Interest Expense

Interest expense for the nine months ended September 30, 2005 was $10.8 million compared to $10.2 million for the nine months ended September 30, 2004. Total outstanding interest bearing debt, including our debentures due Red Lion Hotels Capital Trust ("the Trust"), was higher in 2005 as compared to the 2004 resulting primarily to the trust preferred debentures, in place for all nine months in 2005 compared to approximately seven months in 2004. The average pre-tax interest rate on debt during both the first nine months of 2005 and 2004 was 7.9%. We had no material borrowings during either comparative period on our revolving credit facility. Subsequent to the end of the third quarter in 2005 the company refinanced the debt for one of its hotel properties where the current loan was paid and funded during the same period.

Income Taxes

Income tax expense on continuing operations for the first nine months of 2005 was $33 thousand, or approximately 5% of pre-tax income. The income tax expense for the nine months of 2004 was $411 thousand, or approximately 25% of pre-tax net income. The experience rate on pre-tax net income differs from the statutory combined federal and state tax rates primarily due to the utilization of certain incentive tax credits allowed under federal law.

Discontinued Operations

In connection with the November 2004 announcement of plans to invest $40.0 million to improve comfort, freshen décor and upgrade technology at our hotels, we implemented a plan to divest 11 non-strategic owned hotels, one real estate office building and certain other non-core properties including five condominium units and three parcels of excess land. (collectively these assets are referred to herein as "the divestment properties"). Each of the divestment properties meets the criteria to be classified as an asset held for sale. In addition, the activities of those 11 hotels and the real estate office building are considered discontinued operations under generally accepted accounting principles. Depreciation of these assets, if previously appropriate, has been suspended.

We completed the sale of six of the 11 hotels during the third quarter of 2005, with gross proceeds of $25.4 million, resulting in a gain on disposition of discontinued operations of $5.6 million before taxes. The net impact on consolidated earnings of the activities of the discontinued operations was $4.8 million of net income for the nine months ended September 30, 2005, net of income tax expense. This includes $4.2 million of aggregate net income from the 11 hotels and $544 thousand of income from the office building. Gains related to the sale of six of the hotel properties during the third quarter accounted for $2.7 million (net of tax expense) of net income from discontinued operations offset by the recording of an additional impairment loss of $1.4 million for one remaining hotel property as we are proceeding to close the sale on this property at a price below the net carrying value of the assets. This compares to the nine months ended September 30, 2004 for which the discontinued operations had a net impact on consolidated earnings of $691 thousand net income including tax expense. The 2004 results include aggregate activity of the 11 hotels of a $500 thousand net income and a $191 thousand net income from the office building.

Net Income and Income Applicable to Common Shareholders

The net income increased $3.8 million between comparable periods. The higher net income was the result of the sale of six of the divested properties as discussed previously and better net performance from the operations classified as discontinued. Also contributing to the increase was improved hotel direct margin of $979 thousand for the comparative period. These increases were partially offset by operating declines from other segments discussed above.

Earnings Per Share

The diluted earnings per share for the nine months ended September 30, 2005 was $0.41 compared to income of $0.12 per share for the nine months ended September 30, 2004. The net income applicable to common shareholders increased $3.8 million as described above, while the number of weighted average common shares outstanding in both periods remained relatively consistent.

Liquidity and Capital Resources

We believe that our actions to date have strengthened our financial position, particularly in the long term. The divestment plan is well underway and been successful to date. Those actions also include the 2005 refinance of our existing bank line-of-credit into an expanded operating and investment credit facility, the refinance of one of our office buildings and the development plans announced during the first quarter of 2005, the closing of the $46 million offering of trust preferred securities in the first quarter of 2004, and the elimination of our preferred stock and its associated dividend requirements. We have also made significant investments in our hotel improvement program focused on increasing customer comfort, freshening decor, and modernizing with new technology. We believe our improvements strengthen our financial position and the value of the Red Lion brand.

As we enter the fourth quarter of 2005 and begin 2006, our cash balances are ready to fund our reinvestment into our continuing operations. In general, we expect to meet our long-term liquidity requirements for the funding of property development, property acquisitions, renovations and other non-recurring capital improvements through net cash from operations, long-term secured and unsecured indebtedness, including our credit facility, the issuance of debt or equity securities and joint ventures. As discussed elsewhere in this report, we are also divesting from five more non-core hotel properties, one office building and other non-core assets to fund a significant portion of our $40.0 million reinvestment plan in the hotels. As of the date of this report two hotels and the office building are under non-contingent sales contracts.

As noted previously, on February 9, 2005, we modified our existing bank credit facility with Wells Fargo Bank by entering into a First Amended and Restated Credit Agreement. The credit agreement includes a revolving credit facility with a total of $20.0 million in borrowing capacity for working capital and capital expenditure purposes.

Our short-term liquidity needs include funds for interest payments on our outstanding indebtedness and on the debentures, funds for capital expenditures and, potentially, acquisitions. We expect to meet our

short-term liquidity requirements generally through net cash provided by operations and reserves established from existing cash, and, if necessary, by drawing upon our credit facility. A majority of our leased and owned hotels are subject to leases and debt agreements that require us to spend 3% to 5% of hotel revenues derived from these hotels on replacement of furniture, fixtures and equipment at these hotels, or require payment of insurance premiums or real and personal property taxes with respect to these hotels. This is consistent with what we would spend on furniture, fixtures and equipment under normal circumstances to maintain the competitive appearance of our owned and leased hotels.

Historically, our cash and capital requirements have been satisfied through cash generated from operating activities, borrowings under our credit facilities and the issuance of equity securities. We believe cash flow from operations, available borrowings under our credit facility and existing cash on hand will provide adequate funds for our working capital needs, planned capital expenditures, debt service and other obligations for the foreseeable future.

Our ability to fund operations, make planned capital expenditures, make required payments on any securities we may issue in the future and remain in compliance with the financial covenants under our debt agreements will be dependent on our future operating performance. Our future operating performance is dependent on a number of factors, many of which are beyond our control, including occupancy and the room rates we can charge. These factors also include prevailing economic conditions and financial, competitive, regulatory and other factors affecting our business and operations, and may be dependent on the availability of borrowings under our credit facility or other borrowings or securities offerings.

Cash flow from operations, which includes the cash flows of business units identified as discontinued operations, for the nine months ended September 30, 2005 totaled $14.2 million, compared to $14.3 million for the nine months ended September 30, 2004. Net income, after reconciling adjustments to net cash provided by operations (such as non-cash income statement impacts like gains on disposals, impairment loss, depreciation, loan fee write-offs, the deferred tax provision, other gains and losses on assets, and the provision for doubtful accounts) totaled $9.7 million in the first three quarters of 2005. For the first three quarters of 2004 net income adjusted for those same items totaled $13.1 million. Working capital changes, including restricted cash, receivables, accruals, payables, and inventories, added $4.5 million in cash during 2005. This was predominantly due to a decrease in accrued expenses including taxes payable on the gains recognized in 2005, a decrease in prepaid expenses and accounts payable, partially offset by an increase in accounts receivable and restricted cash. The increase in accrued expenses between December 2004 and September 2005 relates primarily to the timing of property taxes and amounts owed in connection with a show to be presented by WestCoast Entertainment in the Fourth quarter of 2005. In the first three quarters of 2004, changes in working capital items accounted for a $1.2 million positive cash flow.

Net cash provided by investing activities was $6.8 million for the nine months ended September 30, 2005. Net cash used in investing activities was $20.1 million for the nine months ended September 30, 2004. Cash additions to property and equipment totaled $13.6 million in 2005 compared to $19.1 million in 2004, however capital additions for the first nine months of 2004 includes $8.7 million of cash paid related to the acquisition of the Yakima and Bellevue properties during that period under an option agreement. Actual cash additions for capital improvements for that period were $10.4 million. Net cash proceeds from the disposal of assets, including those classified as discontinued operations, totaled $19.8 million for the nine months ended September 30, 2005. The other major variances between the two periods were the $1.4 million investment in the Trust described elsewhere, representing 3% of the total capitalization of the Trust, the $2.1 million advance to the Trust to cover the trust preferred offering costs, and the collection of a balloon payment under a note receivable in 2004.

Net financing activities used $3.4 million during the nine months ended September 30, 2005, including debt pay downs of $7.2 million and borrowings of $3.9 million. The borrowings were related to the refinance of a $3.6 million term note, the payment of which is included in the debt paydowns for the year to date. The pay downs of debt also include $3.6 million of scheduled principal payments. This compares to the three quarters ended September 30, 2004 which shows cash provided by financing of $14.0 million. This includes $47.4 million in proceeds from the debenture sale, offset by $29.4 million paid to redeem the Series A and Series B preferred shares. We also paid $1.0 million in preferred dividends during the first

quarter of 2004, had scheduled principal payments on long-term debt of $3.3 million and no net activity under the credit facility note payable to bank.

At September 30, 2005 we had $27.3 million in cash and cash equivalents for continuing operations. We also had $8.9 million of cash restricted under securitized borrowing arrangements for future payment of furniture, fixtures and equipment, repairs, insurance premiums and real and personal property taxes, or by agreement. At September 30, 2005, $26.2 million of the cash and cash equivalent balance was held in short-term, liquid investments readily available for our use. At December 31, 2004, we had $13.7 million in cash and cash equivalents for continuing operations, including $4.1 million of cash restricted under securitized borrowing arrangements for future payment of furniture, fixtures and equipment, repairs, insurance premiums and real and personal property taxes. At December 31, 2004, $7.5 million of the cash balance was held in short-term, liquid investments readily available for our use. Cash and cash equivalents included with assets of discontinued operations were $160 thousand and $334 thousand as of September 30, 2005 and December 31, 2004, respectively.

Financing

On February 9, 2005, we modified our existing bank credit facility with Wells Fargo by entering into a First Amended and Restated Credit Agreement. The credit agreement includes a revolving credit facility with a total of $20.0 million in borrowing capacity for working capital purposes. This includes a $4 million line-of-credit secured by our personal property and two hotels (“New Line A”) and a $16.0 million line of credit secured by our personal property and seven hotels that we are holding for sale (“New Line B”). Interest under both New Line A and New Line B is set at 1% over the bank’s prime rate. If we sell any of the hotels securing New Line B, we will pay, to the extent of any outstanding borrowings, a release price that is based on a percentage of the specific hotel’s appraised value, and the amount available for borrowing under Line B will be reduced proportionally.

The credit agreement contains certain restrictions and financial covenants, including covenants regarding minimum tangible net worth, maximum funded debt to EBITDA ratio and EBITDA coverage ratio. Except for release payments used to reduce the outstanding principal balance of New Line B in connection with sales of hotels securing New Line B, neither New Line A nor New Line B require any principal payments until their respective maturity dates. New Line A has a maturity date of January 3, 2007. New Line B has a maturity date of June 30, 2006. We had no borrowing on the revolving credit facility during the third quarter of 2005, nor is there any outstanding balance at September 30, 2005.

In March 2005 we completed the refinance of an office building and secured related financing to facilitate the redevelopment of the project. We borrowed approximately $3.8 million under a term debt arrangement collateralized by the real estate property. In addition, we may borrow another $6.2 million under the agreement to finance the redevelopment of the office building. The note carries a 6.25% interest rate fixed for the construction period and for the first five years of the term. After that it is adjustable in five year intervals based upon treasury rates. The note is being paid interest only through the construction period. The note is due in full on or before October 1, 2032 and is prepayable, in whole or in part, with no penalty. Also in connection with that project, on March 31, 2005, we repaid approximately $3.6 million of principal due under a term debt arrangement. The note was collateralized by real property including an office building, carried an interest rate of 9.0%, and was due on April 1, 2010. However the note was pre-payable on April 1, 2005 without penalty.

In June 2005, the Company extended the due date on an existing term loan with a bank secured by a hotel having a principal balance of $3.8 million by three months in order to facilitate a refinance of the balance with another lender. In October, 2005 that debt was refinanced and at September 30, 2005 amounts due beyond one year under the new loan totaling $3.6 million are included as a long-term liability.

As of September 30, 2005 we had debt obligations of $191.2 million, of which 73.8%, or $141.0 million, were fixed rate debt securities secured primarily by individual properties. $47.4 million of the debt obligations are uncollateralized debentures due the Trust at a fixed rate, making a total of 98.6% of our debt fixed rate obligations.

Other Matters

Assets Held for Sale

In connection with the November 2004 announcement of plans to invest $40.0 million to improve comfort, freshen décor and upgrade technology at our hotels, the Company implemented a plan to divest 11 non-strategic owned hotels, one real estate office building and certain other non-core properties including condominium units and three parcels of excess land. (collectively these assets are referred to herein as “the divestment properties”). Each of the divestment properties meets the criteria to be classified as an asset held for sale. In addition, the activities of those 11 hotels and the real estate office building are considered discontinued operations under generally accepted accounting principles.

During the third quarter of 2005, we completed the sale of six of the hotels, with gross aggregate proceeds of $25.4 million. The resulting gain on disposition of discontinued operations of was $5.6 million. In addition, during the third quarter of 2005 we recorded an impairment of $1.4 million on one remaining hotel property, as we are proceeding to close the sale on this property at a price below the net carrying value of the assets. The net tax impact of these transactions was $1.5 million of expense. The net overall impact of these transactions was a net gain of $2.7 million. Each of the remaining properties continue to be listed with a broker with experience in the related industry.

Capital Spending

Key to our growth strategy is the planned $40.0 million reinvestment in our existing owned and leased Red Lion hotels, one of the most significant facility improvement programs in company history. This investment accelerates our ongoing program to improve hotel quality by increasing customer comfort, freshening decor and modernizing with new technology. We believe that by improving the quality of our existing product in areas where customers’ quality expectations are growing, we both position our continuing operations to take advantage of the growth potential in our existing markets, and make the Red Lion brand more attractive for franchise opportunities.

We are seeking to create an improved guest experience across our hotel portfolio. During the year ended December 31, 2004, we spent a total of $12.6 million on capital improvement programs, including $10.9 million on our hotels segment. During the first three quarters of 2005 we spent approximately $13.6 million on capital improvement programs, including $11.2 on our hotels segment. During the remainder of 2005, we expect to spend approximately $9.4 million on capital improvements with a focus on our hotels segment, primarily in guest contact areas.

Franchise and Management Contracts

Through September 30, 2005 we entered into two franchise agreements, the Red Lion Hotel on the River – Jantzen Beach and the Red Lion Hotel in Tacoma. In addition, in connection with the sale of four of the six properties discussed in Asset Disposition below, we entered into short term franchise agreements to facilitate the operation of those hotels during the transition to another brand. Also during the first quarter of 2005, our agreement with the Red Lion in Jackson, Wyoming expired. There were no changes in management contracts during the first nine months of 2005.

Acquisitions

There were no hotels acquired or other material operating acquisitions during the first nine months of 2005.

Asset Dispositions

During the third quarter of 2005, we completed the sale of six of the hotels in connection with our previously announced plans to divest from 11 hotels and an office building. Gross aggregate proceeds from the sales were $25.4 million. The resulting gain on disposition of discontinued operations of was $5.6 million before the effect of income taxes.

In July 2005, the Company closed the sale of a 50% interest in its Kalispell Center retail and hotel complex to an unrelated third party for $6.3 million, resulting in a net gain of $293,000. The Company continues to manage the retail component of the complex. The Company also is leasing back the WestCoast Kalispell Center Hotel, which will be re-branded the Red Lion Kalispell Hotel after undergoing $4.0 million in improvements to expand and renovate the hotel. The Company continues to consolidate the Kalispell Center retail and hotel complex.

There were no other significant asset dispositions during the first nine months of 2005.

Preferred Stock Dividends

On January 3, 2004 we paid the regularly scheduled dividend to the shareholder of record as of December 31, 2003 of our Series A and Series B Preferred Stock, totaling approximately $634 thousand.

As noted previously, in connection with the offering of trust preferred securities, on February 24, 2004 we paid accrued dividends to that date on both the Series A and Series B Preferred Stock totaling $377 thousand. We then immediately redeemed all of the outstanding and issued shares of the Series A and Series B Preferred Stock for approximately $29.4 million, or $50 per share. No dividends were therefore paid in 2005.

Seasonality

Our business is subject to seasonal fluctuations. Significant portions of our revenues and profits are realized from May through October.

Inflation

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

Contractual Obligations

The following tables summarize our significant contractual obligations as of September 30, 2005 (in thousands):

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	$143,738	$ 4,499	$11,053	$ 9,605	$118,581
Operating leases (1)	97,462	6,491	12,902	12,628	65,441
Debentures due Red Lion Hotel Capital Trust (2)	47,423	—	—	—	47,423
Total contractual obligations (3)	$288,623	$10,990	$23,955	$22,233	$231,445

(1) Operating lease amounts are net of estimated sub-lease income totaling $9.9 million annually.

(2) The principal amount of the debentures due the Trust is due in full during February 2044.

(3) We are not party to any significant long-term service or supply contracts with respect to our processes. We refrain from entering into any long-term purchase commitments in the ordinary course of business.

Critical Accounting Policies and Estimates

A critical accounting policy is one which is both important to the portrayal of our company's financial condition and results of operations and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. All of our significant accounting policies are described in Note 2 to our 2004 consolidated financial statements included with our annual report filed on Form 10-K. The accounting principles of our company comply with generally accepted accounting principles ("GAAP"). The more critical accounting policies and estimates used relate to:

Revenue is generally recognized as services are performed. Hotel revenues primarily represent room rental and food and beverage sales from owned and leased hotels and are recognized at the time of the hotel stay or sale of the restaurant services.

Franchise and management fees represent fees received in connection with the franchise of our company's brand names and management fees we earn from managing third-party owned hotels. Such fees are recognized as earned in accordance with the contractual terms of the franchise agreements.

Real estate division revenue represents leasing income on owned commercial and retail properties as well as property management income, development fees and leasing and sales commissions from residential and commercial properties managed by our company, typically under long-term contracts with the property owner. Lease revenues are recognized over the period of the leases. We record rental income from operating leases which contain fixed escalation clauses on the straight-line method. The difference between income earned and lease payments received from the tenants is included in other assets on the consolidated balance sheets. Rental income from retail leases which is contingent upon the lessees' revenues is recorded as income in the period earned. Management fees and leasing and sales commissions are recognized as these services are performed.

The entertainment segment derives revenue primarily from computerized event ticketing services and promotion of Broadway style shows and other special events. Where our company acts as an agent and receives a net fee or commission, it is recognized as revenue in the period the services are performed. When our company is the promoter of an event and is at risk for the production, revenues and expenses are recorded in the period of the event performance.

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 real estate values, estimated future cash flows from the respective properties and other matters. We review the recoverability of our long-lived assets when events or circumstances indicate that the carrying amount of an asset may not be recoverable.

We account for assets held for sale in accordance with Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"). Our company's assets held for sale are recorded at the lower of their historical carrying value (cost less accumulated depreciation) or market value. Depreciation is terminated when the asset is determined to be held for sale. If the assets are ultimately not sold within the guidelines of SFAS No. 144, depreciation would be recaptured for the period they were classified on the balance sheet as held for sale.

Our company's intangible assets include brands and goodwill. We account for our brands and goodwill in accordance with Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"). We expect to receive future benefits from previously acquired brands and goodwill over an indefinite period of time and therefore do not amortize our brands and goodwill in accordance with SFAS No. 142. The annual impairment review requires us to make certain judgments, including estimates of future cash flow with respect to brands and estimates of our company's fair value and its components with respect to goodwill and other intangible assets.

Our other intangible assets include management, marketing and lease contracts. The value of these contracts is amortized on a straight-line basis over the weighted average life of the agreements. The assessment of these contracts requires us to make certain judgments, including estimated future cash flow from the applicable properties.

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 company's estimate for our allowance for doubtful accounts is impacted by, among other things, national and regional economic conditions.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"). This Statement is a revision to SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires the measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render service. In April 2005 the U.S. Securities and Exchange Commission ("SEC") and the FASB delayed the mandatory adoption date of this standard. We will now adopt SFAS No. 123(R) on January 1, 2006, requiring compensation cost to be recognized as expense for the portion of outstanding unvested awards, based on the grant-date fair value of those awards calculated using an option pricing model. We are evaluating the impact, if any, that these provisions of SFAS No. 123(R) may have on our consolidated financial statements but do not expect them to have a material impact.

In addition, SFAS No. 123(R) will require the Company to recognize compensation expense, if applicable, for the difference between the fair value of our common stock and the actual purchase price of that stock under our Employee Stock Purchase Plan. We cannot estimate what the final impact to the consolidated statement of operations will be in the future, because it will depend on, among other things, when and if shares are purchased and certain variables known only when the plan is purchasing shares.

In March 2005, the SEC released Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment." SAB No. 107 provides the SEC staff position regarding the application of SFAS No. 123(R). SAB No. 107 contains interpretive guidance related to the interaction between SFAS No. 123(R) and certain SEC rules and regulations, as well as provides the staff's views regarding the valuation of share-based payment arrangements for public companies. SAB No. 107 also highlights the importance of disclosures made related to the accounting for share-based payment transactions. We are evaluating the impact, if any, that these provisions of SAB No. 107 may have on the consolidated financial statements but do not expect them to have a material impact.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3." This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. The provisions of SFAS No. 154 are effective for fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS No. 154 in 2006 to have a material impact on our results of operations or financial position.

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

The following tables summarize the financial instruments held by us at September 30, 2005 and December 31, 2004 which are sensitive to changes in interest rates, including those held as a component of liabilities of discontinued operations on our consolidated balance sheet. At September 30, 2005, approximately 1.4% of our debt was subject to changes in market interest rates and was sensitive to those changes. As of September 30, 2005 we had debt obligations of $191.2 million, of which 73.8%, or $141.0 million, were fixed rate debt securities secured primarily by individual properties. $47.4 million of the debt obligations are uncollateralized debentures due the Trust at a fixed rate, making a total of 98.6% of our debt fixed rate obligations.

The following table presents principal cash flows for debt outstanding at September 30, 2005, including contractual obligations of business units identified as discontinued on our consolidated balance sheet, by maturity date (in thousands).

Outstanding Debt Obligations

	Through 2005	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value
Note payable to bank (a)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Long-term debt									
Fixed Rate	$ 956	$4,044	$4,371	$4,670	$5,040	$7,246	$114,689	$141,016	$141,016
Variable Rate	$ 132	$ 559	$ 221	$1,811	$ —	$ —	$ —	$ 2,722	$ 2,722
Debentures due Red Lion Hotels Capital Trust	$ —	$ —	$ —	$ —	$ —	$ —	$ 47,423	$ 47,423	$ 49,778

(a) At September 30, 2005 there were no borrowings against our note payable to bank.

The following table presents principal cash flows for debt outstanding at December 31, 2004, by maturity date (in thousands).

Outstanding Debt Obligations

	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value
Note payable to bank (a)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Long-term debt								
Fixed Rate	$7,921	$4,286	$4,598	$4,920	$5,294	$123,695	$150,714	$150,714
Variable Rate	$ 658	$ 704	$ 375	$1,926	$ 174	$ 403	$ 4,240	$ 4,240
Debentures due Red Lion Hotel Capital Trust	$ —	$ —	$ —	$ —	$ —	$ 47,423	$ 47,423	$ 50,459

(a) At December 31, 2004 there were no borrowings against our note payable to bank.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

As of the date of the filing of this report, 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 information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Controls

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls during the period to which this quarterly report relates.

PART II — OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

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

None.

Item 3. ***Defaults Upon Senior Securities***

None.

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

None.

Item 5. ***Other Information***

None

Item 6. ***Exhibits***

Index to Exhibits

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

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	Executive Vice President, Chief Investment Officer, and Chief Financial Officer (Principal Financial Officer)	November 10, 2005
By:	**/s/ Anthony F. Dombrowik** Anthony F. Dombrowik	Vice President, Corporate Controller (Principal Accounting Officer)	November 10, 2005

Exhibit 31.1

RED LION HOTELS CORPORATION

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)

I, Arthur M. Coffey, President and Chief Executive Officer of Red Lion Hotels Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Red Lion Hotels Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-25(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

d) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

e) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2005

/s/ ARTHUR M. COFFEY

Arthur M. Coffey
President and Chief Executive Officer

Exhibit 31.2

RED LION HOTELS CORPORATION

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)

I, Anupam Narayan, Executive Vice President, Chief Investment Officer and Chief Financial Officer of Red Lion Hotels Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of Red Lion Hotels Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-25(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

d) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

e) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2005

/s/ ANUPAM NARAYAN

Anupam Narayan
Executive Vice President, Chief Investment Officer
and Chief Financial Officer

Exhibit 32.1

RED LION HOTELS CORPORATION

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(b)

In connection with the quarterly report of Red Lion Hotels Corporation (the "Company") on Form 10-Q for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arthur M. Coffey, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

November 10, 2005

/s/ ARTHUR M. COFFEY

Arthur M. Coffey
President and Chief Executive Officer

Exhibit 32.2

RED LION HOTELS CORPORATION

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(b)

In connection with the quarterly report of Red Lion Hotels Corporation (the "Company") on Form 10-Q for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anupam Narayan, Executive Vice President, Chief Investment Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

November 10, 2005

/s/ ANUPAM NARAYAN

Anupam Narayan
Executive Vice President, Chief Investment Officer
and Chief Financial Officer

End of Filing

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