

RED LION HOTELS CORP

FORM 10-Q (Quarterly Report)

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Industry	Hotels & Motels
Sector	Services
Fiscal Year	12/31

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

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)

**201 W. North River Drive, Suite 100
Spokane Washington**

(Address of principal executive offices)

91-1032187

(I.R.S. Employer Identification No.)

99201

(Zip Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of April 30, 2007, there were 19,191,433 shares of the registrant's common stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

RED LION HOTELS CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
March 31, 2007 and December 31, 2006

	March 31, 2007	December 31, 2006
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,600	\$ 13,262
Investments	—	7,635
Restricted cash	4,052	2,756
Accounts receivable, net	10,154	9,309
Inventories	1,493	1,523
Prepaid expenses and other	4,846	3,907
Assets held for sale:		
Assets of discontinued operations	14,656	14,539
Other assets held for sale	715	715
Total current assets	<u>49,516</u>	<u>53,646</u>
Property and equipment, net	250,980	249,860
Goodwill	28,042	28,042
Intangible assets, net	11,966	12,097
Other assets, net	7,402	7,793
Total assets	<u>\$347,906</u>	<u>\$ 351,438</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 7,482	\$ 8,732
Accrued payroll and related benefits	4,357	6,058
Accrued interest payable	364	422
Advance deposits	715	315
Other accrued expenses	11,344	10,381
Long-term debt, due within one year	2,261	2,267
Liabilities of discontinued operations	4,148	4,112
Total current liabilities	<u>30,671</u>	<u>32,287</u>
Long-term debt, due after one year	82,491	83,005
Deferred income	6,828	7,017
Deferred income taxes	14,247	14,259
Minority interest in partnerships	242	254
Debentures due Red Lion Hotels Capital Trust	30,825	30,825
Total liabilities	<u>165,304</u>	<u>167,647</u>
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock - 5,000,000 shares authorized; \$0.01 par value; no shares issued or outstanding	—	—
Common stock - 50,000,000 shares authorized; \$0.01 par value; 19,191,433 and 19,118,692 shares issued and outstanding	192	191
Additional paid-in capital, common stock	148,707	147,891
Retained earnings	33,703	35,709
Total stockholders' equity	<u>182,602</u>	<u>183,791</u>
Total liabilities and stockholders' equity	<u>\$347,906</u>	<u>\$ 351,438</u>

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

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RED LION HOTELS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
For the Three Months Ended March 31, 2007 and 2006

	<u>Three months ended March 31,</u>	
	<u>2007</u>	<u>2006</u>
	(In thousands, except per share data)	
Revenue:		
Hotels	\$ 34,381	\$ 31,028
Franchise and management	789	576
Entertainment	3,347	3,371
Other	<u>787</u>	<u>773</u>
Total revenues	<u>39,304</u>	<u>35,748</u>
Operating expenses:		
Hotels	29,974	27,876
Franchise and management	263	222
Entertainment	2,855	2,900
Other	483	686
Depreciation and amortization	4,020	2,884
Hotel facility and land lease	1,714	1,695
Gain on asset dispositions, net	(190)	(182)
Undistributed corporate expenses	<u>1,450</u>	<u>984</u>
Total expenses	<u>40,569</u>	<u>37,065</u>
Operating loss	(1,265)	(1,317)
Other income (expense):		
Interest expense	(2,242)	(3,377)
Minority interest in partnerships, net	12	106
Other income, net	<u>309</u>	<u>327</u>
Loss from continuing operations before income taxes	(3,186)	(4,261)
Income tax benefit	<u>(1,206)</u>	<u>(1,576)</u>
Net loss from continuing operations	(1,980)	(2,685)
Discontinued operations:		
Loss from operations of discontinued business units, net of income tax benefits of \$8 and \$175, respectively	(14)	(318)
Net gain (loss) on disposal of discontinued business units, net of income tax benefit (expense) of \$6 and \$(16)	<u>(12)</u>	<u>30</u>
Loss from discontinued operations	<u>(26)</u>	<u>(288)</u>
Net loss	<u>\$ (2,006)</u>	<u>\$ (2,973)</u>
Loss per share:		
Basic and Diluted		
Loss applicable to shareholders before discontinued operations	\$ (0.10)	\$ (0.20)
Loss from discontinued operations	(0.00)	(0.02)
Loss applicable to shareholders	<u>\$ (0.10)</u>	<u>\$ (0.22)</u>
Weighted average shares — basic and diluted	19,148	13,235

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

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RED LION HOTELS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
For the Three Months Ended March 31, 2007 and 2006

	Three months ended March 31,	
	2007	2006
	(In thousands)	
Operating activities:		
Net loss	\$ (2,006)	\$ (2,973)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,028	2,989
Gain on disposition of property, equipment and other assets, net	(190)	(182)
Gain on disposition of discontinued operations, net	—	(46)
Deferred income tax provision	(12)	300
Minority interest in partnerships	(12)	(105)
Equity in investments	9	(107)
Imputed interest expense	52	—
Compensation expense related to stock and option issuance	217	190
Provision for (collection of) doubtful accounts	(13)	182
Change in current assets and liabilities:		
Restricted cash	(1,296)	(1,376)
Accounts receivable	(414)	31
Inventories	30	57
Prepaid expenses and other	(726)	(1,523)
Accounts payable	(1,242)	(1,990)
Accrued payroll and related benefits	(1,705)	(1,579)
Accrued interest payable	(58)	2
Other accrued expenses and advance deposits	1,396	841
Net cash used in operating activities	<u>(1,942)</u>	<u>(5,289)</u>
Investing activities:		
Purchases of property and equipment	(5,160)	(10,664)
Proceeds from disposition of property and equipment	—	14
Proceeds from disposition of discontinued operations	—	5,137
Proceeds from short-term liquid investments	7,635	11,800
Advances to Red Lion Hotels Capital Trust	(17)	(17)
Other, net	(41)	(71)
Net cash provided by investing activities	<u>2,417</u>	<u>6,199</u>
Financing activities:		
Repayment of long-term debt	(572)	(910)
Proceeds from issuance of common stock under employee stock purchase plan	88	65
Proceeds from stock option exercises	379	78
Additions to deferred financing costs	—	(6)
Net cash used in financing activities	<u>(105)</u>	<u>(773)</u>
Net cash in discontinued operations	<u>(32)</u>	<u>48</u>
Change in cash and cash equivalents:		
Net increase in cash and cash equivalents	338	185
Cash and cash equivalents at beginning of period	13,262	13,533
Cash and cash equivalents at end of period	<u>\$ 13,600</u>	<u>\$ 13,718</u>
Supplemental disclosure of cash flow information:		
Cash paid during periods for:		
Interest on long-term debt	\$ 2,242	\$ 3,529
Income taxes	\$ —	\$ 2,022
Noncash investing and financing activities:		
Exchange of common stock for minority interest in partnership	\$ —	\$ 2,273

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, operation and franchising of midscale and upscale, full service hotels under the Red Lion brand. As of March 31, 2007, the Red Lion system of hotels contained 57 hotels located in eight states and one Canadian province, with 10,001 rooms and 503,529 square feet of meeting space. As of that date, the Company operated 32 hotels, of which 19 are wholly owned and 13 are leased, managed one hotel owned by a third-party and franchised 24 hotels that were owned and operated by various third-party franchisees.

In addition to hotel operations, the Company is also engaged in entertainment 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.

Historically, the Company owned certain commercial real estate properties and engaged in traditional real estate related services, including developing, managing and acting as a broker for sales and leases of commercial and multi-unit residential properties (collectively referred to as the real estate management business). Together with commercial retail and office properties we own, these operations comprised the “Real Estate” segment. Effective April 30, 2006, the Company divested the real estate management business. The Company has listed one of two remaining wholly-owned commercial real estate properties for sale. Assets held for sale and discontinued operations are discussed further in Note 4, and any former Real Estate segment activities that are still part of continuing operations are included within the “Other” segment.

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

Up to July 22, 2005, the Company wholly owned a retail and hotel property and included it in consolidation. At that date, the Company sold a 50% tenancy-in-common interest in the property to a third party but continued to consolidate the property in its financial statements. Effective July 1, 2006, the Company determined its 50% ownership interest should be reflected as an equity method investment from the date of the sale and prior period financial statements were reclassified. In December 2006, the Company increased its ownership in the property to 100%. From that date forward, the property was again consolidated and has been reflected as such at both December 31, 2006 and March 31, 2007.

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

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

2. Basis of Presentation

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

The balance sheet as of December 31, 2006 has been compiled from the audited balance sheet as of such date. The Company believes the disclosures included herein are adequate; however, they should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2006, 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 March 31, 2007, the consolidated results of operations for the three months ended March 31, 2007 and 2006, and the consolidated cash flows for the three months ended March 31, 2007 and 2006. The results of operations for the periods presented may not be indicative of those which may be expected for a full year.

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Management makes estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the disclosures of contingent liabilities. Actual results could materially differ from those estimates.

3. Property and Equipment

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

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Buildings and equipment	\$239,321	\$ 226,164
Furniture and fixtures	34,505	34,505
Landscaping and land improvements	2,764	2,764
	<u>276,590</u>	<u>263,433</u>
Less accumulated depreciation and amortization	(88,192)	(84,450)
	188,398	178,983
Land	57,782	57,782
Construction in progress	4,800	13,095
	<u>\$250,980</u>	<u>\$ 249,860</u>

4. Assets Held For Sale and Discontinued Operations

In November 2004, the Company announced its plan to divest non-strategic assets, including eleven of its owned hotels, certain commercial office buildings and certain other non-core properties including condominium units and certain parcels of excess land (collectively referred to as “the divestment properties”). Each of the divestment properties met the criteria to be classified as an asset held for sale. The activities of the hotels and commercial office buildings were considered discontinued operations under generally accepted accounting principles and have been separately disclosed on the consolidated statement of operations, comparative for all periods presented when they existed. Likewise, the assets and liabilities of the business units have been segregated and separately stated on the consolidated balance sheet for all periods presented when they existed. Depreciation of these assets, if previously appropriate, was suspended.

During the first quarter of 2006, the Company received gross proceeds of approximately \$5.3 million upon the sale of one hotel and a portion of a second. The remaining portion of the second hotel was sold during the third quarter of 2006. Proceeds from the sales were used primarily to finance a company-wide hotel renovation program.

In the fourth quarter of 2006, the Company listed for sale a commercial office complex located in Spokane, Washington, which has been considered discontinued operations and separately disclosed on the consolidated statement of operations. In addition, the Company holds for sale one remaining hotel in Kalispell, Montana and surplus undeveloped land. The land has been considered as held for sale but does not meet the definition of a discontinued operation. The Company continues to actively pursue the disposition of these assets. The net impact on consolidated earnings from the activities of discontinued operations resulted in losses of approximately \$26,000 and \$0.3 million, respectively, during the first quarters of 2007 and 2006.

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

	March 31, 2007			March 31, 2006		
	Hotel Properties	Other	Combined	Hotel Properties	Other	Combined
Revenues	\$ 300	\$ 283	\$ 583	\$ 1,428	\$ 258	\$ 1,686
Operating expenses	(404)	(206)	(610)	(1,814)	(185)	(1,999)
Depreciation and amortization	(1)	(7)	(8)	—	(104)	(104)
Interest expense	—	—	—	(39)	(37)	(76)
Interest income	2	11	13	—	—	—
Income tax benefit (expense)	37	(29)	8	151	24	175
Net income (loss) from operations	(66)	52	(14)	(274)	(44)	(318)
Gain (loss) on disposal of discontinued business units	(18)	—	(18)	46	—	46
Income tax benefit (expense)	6	—	6	(16)	—	(16)
Net gain (loss) on disposal of discontinued business units	(12)	—	(12)	30	—	30
Net income (loss)	\$ (78)	\$ 52	\$ (26)	\$ (244)	\$ (44)	\$ (288)

In the above table, the comparability of the divestment properties activity between periods is impacted by the cessation of operations on the date of sale, as applicable.

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

	March 31, 2007			December 31, 2006		
	Hotel Properties	Other	Combined	Hotel Properties	Other	Combined
Cash and cash equivalents	\$ 7	\$ 81	\$ 88	\$ 7	\$ 50	\$ 57
Accounts receivable, net	19	21	40	107	35	142
Inventories	5	—	5	5	—	5
Prepaid expenses and other	—	4	4	77	7	84
Property and equipment, net	4,080	10,134	14,214	4,080	9,837	13,917
Other assets, net	60	245	305	87	247	334
Assets of discontinued operations	\$4,171	\$10,485	\$14,656	\$4,363	\$10,176	\$14,539
Accounts payable	\$ 20	\$ 69	\$ 89	\$ 72	\$ 10	\$ 82
Accrued payroll and related benefits	17	—	17	20	—	20
Accrued interest payable	—	21	21	—	21	21
Other accrued expenses	119	28	147	99	16	115
Long-term debt	—	3,874	3,874	—	3,874	3,874
Liabilities of discontinued operations	\$ 156	\$ 3,992	\$ 4,148	\$ 191	\$ 3,921	\$ 4,112

5. Notes Payable to Bank

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

Outstanding borrowings under the facility accrue interest as Eurodollar loans with rates ranging from 150 to 225 basis points over LIBOR, with an option for base rate loans based upon the federal funds rate or prime rate. The credit facility requires the Company to comply with certain customary affirmative and negative covenants, the most restrictive of which are financial covenants dealing with leverage, interest coverage and debt service coverage. At March 31, 2007, no amounts were outstanding and the Company was in compliance with all of its covenants.

6. Business Segments

As of March 31, 2007 and December 31, 2006, the Company had three operating segments – hotels, franchise and management and entertainment. The “other” segment consists primarily of miscellaneous revenues and expenses, cash and cash equivalents, certain receivables and certain property and equipment which are not specifically associated with an operating segment. Management reviews and evaluates the operating segments exclusive of interest expense; therefore, it has not been allocated to the segments.

The Company has historically owned certain commercial properties and has also engaged in traditional real estate related services, including developing, managing and acting as a broker for sales and leases of commercial and multi-unit residential properties (collectively referred to as the real estate management business). Together, these operations comprised the real estate segment. Effective April 30, 2006, the Company divested the real estate management business. In addition, consistent with company strategy of divesting non-core assets, during the fourth quarter of 2006 the Company listed one of its two remaining wholly-owned commercial real estate properties for sale and classified its results of operations within discontinued operations for all periods presented. Further, the remaining operations of that segment have been reclassified to “Other” for 2006 and for all comparative periods, where appropriate.

The franchise and management segment had intra-segment revenues with the hotels segment for management fees which were eliminated in the consolidated financial statements. Likewise, the entertainment segment had inter-segment revenues which were eliminated in the consolidated financial statements. Management reviews and evaluates the operations of all of its segments including the inter-segment and intra-segment revenues. All balances have been presented after the elimination of inter-segment and intra-segment revenues. Selected information with respect to continuing operations is as provided below. For similar information with regard to discontinued operations, see Note 4.

	Three months ended March 31,	
	2007	2006
Revenues:		
Hotels	\$ 34,381	\$ 31,028
Franchise and management	789	576
Entertainment	3,347	3,371
Other	787	773
	<u>\$ 39,304</u>	<u>\$ 35,748</u>
Operating income (loss):		
Hotels	\$ (547)	\$ (810)
Franchise and management	334	117
Entertainment	386	330
Other	(1,438)	(954)
	<u>\$ (1,265)</u>	<u>\$ (1,317)</u>
	March 31,	December 31,
	2007	2006
Identifiable assets:		
Hotels	\$256,866	\$256,838
Franchise and management	31,016	31,879
Entertainment	5,170	5,259
Other	40,198	42,923
	<u>\$333,250</u>	<u>\$336,899</u>

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7. Loss Per Share

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted loss per share computations for the three months ended March 31, 2007 and 2006 (in thousands, except per share amounts):

	Three months ended March 31,	
	2007	2006
Numerator — basic and diluted:		
Net loss from continuing operations	\$ (1,980)	\$ (2,685)
Loss on discontinued operations	(26)	(288)
Net loss	<u>(2,006)</u>	<u>(2,973)</u>
Denominator:		
Weighted average shares — basic and diluted	<u>19,148</u>	<u>13,235</u>
Loss per share — basic and diluted:		
Loss applicable to shareholders before discontinued operations	\$ (0.10)	\$ (0.20)
Loss on discontinued operations	—	(0.02)
Loss applicable to shareholders	<u>\$ (0.10)</u>	<u>\$ (0.22)</u>

- (a) At March 31, 2007 and March 31, 2006, the effect of converting OP Units would be anti-dilutive and the units are therefore excluded from the above calculation.
- (b) At March 31, 2007 and March 31, 2006, 1,184,883 and 1,217,610 options to purchase common shares and unvested restricted stock units, respectively, were outstanding. The effect of the shares that would be issued upon exercise of these options and units would be anti-dilutive and is therefore excluded from the above calculations.
- (c) All convertible debt instruments outstanding at March 31, 2006, were considered anti-dilutive.

8. Stock Based Compensation

The 1998 Stock Incentive Plan and the 2006 Stock Incentive Plan (“the Plans”) authorize the grant or issuance of various option or other awards including restricted stock grants and other stock-based compensation. The plans were approved by the shareholders of the Company. The 2006 plan allows awards up to a maximum number of 1.0 million shares, subject to adjustments for stock splits, stock dividends and similar events. The 1998 plan allowed for a maximum number of 1.4 million shares, although as a condition to the approval of the 2006 plan, the Company will no longer grant or issue awards under this plan. The compensation committee of the board of directors administers the 2006 plan and establishes to whom awards may be granted, and the type and terms and conditions, including the exercise period, of those awards that may be granted. As of March 31, 2007, there were 808,218 shares of common stock available for issuance pursuant to future stock option grants or other awards under the 2006 plan.

The Company also maintains an employee stock purchase plan (the “ESPP”) to assist its employees in acquiring a stock ownership interest in the Company. Under the ESPP, 300,000 shares of common stock have been authorized for purchase, of which 83,602 remain available in accordance with its terms. The ESPP permits eligible employees to purchase common stock at a discount through payroll deductions, and no employee may purchase more than \$25,000 worth in any calendar year. During the first quarter of 2007, 9,299 shares were issued out of the plan and the Company recognized approximately \$25,000 in compensation expense for the discount.

The Company calculates stock based compensation under the provisions of SFAS No. 123(R), including options and other awards issued under the Plans and shares under the ESPP. Stock options issued are valued based upon the Black-Scholes option-pricing model and the Company recognizes this value as an expense over the periods in which the options vest. Use of the Black-Scholes option-pricing model requires that the Company make certain assumptions, including expected volatility, forfeiture rate, risk-free interest rate, expected dividend yield and expected life of the options, based on historical experience. Volatility is based on historical information with terms consistent with the expected life of the option. The risk free interest rate is based on the quoted treasury yield curve at the time of grant, with terms consistent with the expected life of the option.

All options granted prior to 2003 were designated as nonqualified options, with an exercise price equal to or in excess of fair market value on the date of grant, and for a term of ten years. For substantially all options granted, fifty percent of each recipient’s options will vest on the fourth anniversary of the date of grant and the remaining 50% will vest on the fifth anniversary of the date of grant. For options issued prior to 2004, the vesting schedule will change if, beginning one year after the option grant date, the stock price of the common stock reaches the following target levels (measured as a percentage increase over the exercise price) for 60 consecutive trading days:

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<u>Stock Price Increase</u>	<u>Percent of Options Shares Vested</u>
25%	25%
50%	50%
75%	75%
100%	100%

For options issued in 2004 and 2005, the vesting schedule will change if, between the two year anniversary and the four year anniversary of the option grant date, the stock price of the common stock reaches the below target levels (measured as a percentage increase over the exercise price) for 60 consecutive trading days. During the first quarter of 2007, 25% of the shares issued in 2004, or 114,726 options, vested and became eligible for exercise in accordance with these provisions.

<u>Stock Price Increase</u>	<u>Percent of Options Shares Vested</u>
100%	25%
200%	50%

Options issued in 2006 vest 25% each year for four years with no stock price acceleration provision.

In each of the first quarters of 2007 and 2006, the Company recognized approximately \$0.2 million in compensation expense for previously granted options. The Company also recognized tax benefits related to the exercise of stock options of \$0.1 million during the first quarter of 2007. At March 31, 2007, the fair value of options vested was approximately \$1.1 million. As options vest, the Company expects to recognize approximately \$1.6 million in additional compensation expense before the impact of income taxes, including \$0.5 million during the remainder of 2007, and is expected to be recognized over a weighted average period of 35 months. A summary of stock option activity at March 31, 2007, is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2006	1,256,874	\$ 7.14
Options granted	—	\$ —
Options exercised	(63,442)	\$ 5.99
Options forfeited	(34,352)	\$ 5.69
Balance, March 31, 2007	<u>1,159,080</u>	<u>\$ 7.25</u>
Exercisable, March 31, 2007	<u>444,103</u>	<u>\$ 7.00</u>

During the first three months of 2007 and 2006, the total intrinsic value received by the grantees upon exercise of the 63,442 and 13,031 stock options was \$0.4 million and \$0.1 million, respectively. From those exercises, the Company issued new shares of common stock and received approximately \$0.4 million and \$0.1 million, respectively, in gross proceeds.

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Additional information regarding stock options outstanding and exercisable as of March 31, 2007, is as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Expiration Date	Weighted Average Exercise Price	Aggregate Intrinsic Value ⁽¹⁾ (in thousands)	Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value ⁽¹⁾ (in thousands)
5.10 - 6.07	691,159	6.94	2011-2014	\$ 5.32	\$4,922	334,687	\$ 5.52	\$2,316
7.46 - 8.31	232,508	7.58	2009-2015	7.56	1,134	41,108	8.03	181
10.88-10.94	28,612	3.34	2009-2016	10.93	43	22,638	10.94	34
12.21-15.00	206,801	7.78	2008-2016	12.83	37	45,670	15.00	—
	1,159,080	7.13	2008-2016	\$ 7.25	\$6,136	444,103	\$ 7.00	\$2,531

(1) The aggregate intrinsic value is before applicable income taxes and represents the amount option recipients would have received if all options had been available to be exercised on the last trading day of the first quarter of 2007, or March 30, 2007, based upon the Company's closing stock price of \$12.44.

In November 2006 and November 2004, the Company granted 18,389 and 18,535 restricted shares of common stock, respectively, to members of senior management as compensation. The Company did not grant restricted shares of common stock to members of senior management in 2005. While all of the shares are considered granted, they are not considered issued or outstanding until vested. The 2006 award vests 25% on each anniversary of the grant date. The 2004 award vested 20%, or 3,707 shares, upon grant and vests an additional 20% at each subsequent anniversary date. The shares awarded had a fair value of \$0.2 million and \$0.1 million on grant date, respectively, based on grant date prices of \$12.21 for the November 2006 awards and \$5.04 for the November 2004 awards.

As of March 31, 2007 and March 31, 2006, there were 25,803 and 11,121 unvested shares outstanding, respectively. No shares have been forfeited since grant. In each of the first quarters of 2007 and 2006, the Company recognized approximately \$19,000 and \$5,000, respectively, in compensation expense. As the restricted shares vest, the Company expects to recognize approximately \$0.2 million in additional compensation expense over a weighted average period of 41 months.

9. Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of FIN 48, a company must review all of its uncertain tax positions and make a determination as to whether its position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a position meets the more-likely-than-not criterion, then the related tax benefit is measured based on the cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of the provisions of FIN 48 did not have a material impact on the Company's financial condition or results of operations.

In June 2006, the Emerging Issues Task Force ("EITF") issued EITF No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences." Under EITF No. 06-2, the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period if an employee's right to such absence (a) requires the completion of a minimum service period and (b) in which the benefit does not increase with additional years of service pursuant to paragraph 6(b) of SFAS No. 43 for arrangements in which the individual continues to be a compensated employee and is not required to perform duties for the entity during the absence. EITF No. 06-2 was effective for the Company on January 1, 2007, and the adoption of the provisions of EITF No. 06-2 did not materially impact the Company's financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements itself. However, this statement applies under other accounting pronouncements that require or permit fair value measurements and may therefore change current practice if an alternative measure of fair value has been used. SFAS No. 157 applies an exchange price notion for fair value consistent with previously preferred practice, with a focus on exit price and market-based measurements as compared to entry price and entity-specific measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged and the new measurement criteria are generally to be applied prospectively. The Company is currently evaluating the impact SFAS No. 157 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial

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instruments and certain other items at fair value, the objective of which is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement, which is consistent with FASB's long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157 "Fair Value Measurements." The Company is currently evaluating the impact SFAS No. 159 will have on its consolidated financial statements.

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” under Item 1A of our annual report filed on Form 10-K for the year ended December 31, 2006, 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, all of its wholly and partially owned subsidiaries, including, but not limited to, its 100% ownership of Red Lion Hotels Holdings, Inc. and Red Lion Hotels Franchising, Inc. and its approximate 99% ownership of Red Lion Hotels Limited Partnership. “Red Lion” refers to the Red Lion brand. The term “the system,” “system-wide hotels” or “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 unaudited consolidated financial statements and the condensed notes thereto and other financial information included elsewhere in this quarterly report, as well as in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2006, previously filed with the SEC on Form 10-K .

Introduction

We are a NYSE-listed hospitality and leisure company (ticker symbols RLH and RLH-pa) primarily engaged in the ownership, operation, development and franchising of midscale and upscale, full service hotels. The Red Lion brand is nationally recognized and particularly well known in the western United States where most of our hotels are located. The Red Lion brand is typically associated with three and four-star full-service hotels. As of March 31, 2007, our hotel system contained 57 hotels located in eight states and one Canadian province, with 10,001 rooms and 503,529 square feet of meeting space as provided below:

	Hotels	Total Available Rooms	Meeting Space (sq. ft.)
Owned Hotels ⁽¹⁾	19	3,864	213,472
Leased Hotels ⁽²⁾	13	2,184	99,856
Franchised Hotels	24	3,699	154,201
Managed Hotels	1	254	36,000
Total	57	10,001	503,529

(1) Statistics include one hotel identified as a discontinued business unit, with 218 rooms and 14,000 square feet of meeting space.

(2) Leased hotels are those properties which we operate and manage and have ownership of some or all of the equipment and personal property on site, however, the hotel facility and the underlying land is occupied under an operating lease from a third party. Our lease expiration dates range from 2020 to 2033 and have renewal provisions attached for each hotel.

Established over 30 years ago, the Red Lion brand is well recognized, particularly in the western United States, and is typically associated with three and four-star full-service hotels by our customers. Red Lion is about “Staying Comfortable” and our product and service culture works in both large urban and smaller markets. The character of our hotels strives to reflect its individual local market while maintaining consistent brand standards, which we feel makes our hotels an attractive choice for customers within the markets we currently operate. We believe our adherence to consistent customer service standards and brand touch-points makes guests feel at home no matter where they are.

We operate in three reportable segments:

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

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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.

We have historically owned certain commercial real estate properties. We also have engaged in traditional real estate related services, including developing, managing and acting as a broker for sales and leases of commercial and multi-unit residential properties (collectively referred to as the real estate management business). Together, these operations comprised our real estate segment. Effective April 30, 2006, we divested the real estate management business. In addition, consistent with our strategy of divesting non-core assets, during the fourth quarter of 2006, we listed one of our two remaining wholly-owned commercial real estate properties for sale and have classified its results of operations within discontinued operations for all periods presented. Further, the remaining operations of that segment have been reclassified to "Other" for 2006 and for all comparative periods, where appropriate. For additional information, see Note 4 of Notes to Consolidated Financial Statements.

Executive Summary

Our goal is to create the most memorable guest experience possible, allowing us to be the leader in our markets through personalized, exuberant service. To achieve that goal, we have and will continue to focus our resources – monetary, capital and human — in three primary areas:

- Infrastructure – Improving the foundation of the corporation including focusing on our core competencies, improving our liquidity and capital resources, improving the infrastructure used to manage reservations and support our hotel system and increasing our depth of resources.
- Physical Assets – Improving our product, including the physical assets presented to our guests and the feel of our guest experience.
- Growth – Preparing for growth, especially in the franchise arena, means creating consistent upscale brand standards throughout our hotel system, enhancing the service delivery presented to our customers and developing and connecting with our associates in an effort to better meet the expectations of our guests.

In 2005, we completed the implementation of our Stay Comfortable initiative and began major room renovations in several hotels including new floor and wall coverings, tiled bathroom floors, granite vanities and other bathroom upgrades, enhanced guest room features including new plush pillow top mattresses and upgraded linen and pillow packages, large work desks and ergonomic chairs and amenities such as complimentary wireless internet access. By the end of 2006, we began work on common areas such as lobbies and restaurants and as of March 31, 2007, we have substantially completed all hotel renovations we announced at the end of 2004.

Guest reaction to our renovations has been positive, as evidenced by the 13.9% increase in RevPAR and 10.3% increase in ADR at our owned and leased properties during the first quarter of 2007 over the comparable period. A summary of the performance of our hotel system, including all hotels owned, leased, managed and franchised for each of the periods presented, is provided below. We continue to believe the lodging industry as a whole will continue to see increases in ADR and RevPAR in 2007 and beyond. While RevPAR, ADR and occupancy remained relatively flat at our franchised hotels during the comparable periods, we believe that results have been impacted by hotel renovations similar to what we experienced at our owned and leased properties up through the second quarter of 2006. Franchised hotels are required to complete renovations to our enhanced Red Lion brand standards by the end of 2007.

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	For the three months ended March 31,					
	2007			2006		
	Average ⁽²⁾ Occupancy	ADR ⁽³⁾	RevPAR ⁽⁴⁾	Average ⁽²⁾ Occupancy	ADR ⁽³⁾	RevPAR ⁽⁴⁾
Red Lion Hotels:						
Owned and Leased Hotels	53.0%	\$81.45	\$43.18	51.3%	\$73.84	\$37.90
Franchised Hotels	56.6%	\$79.52	\$45.00	57.4%	\$78.54	\$45.07
Total Red Lion Hotels	54.2%	\$80.77	\$43.80	53.4%	\$75.56	\$40.35
System-wide ⁽¹⁾	53.6%	\$82.12	\$44.05	52.7%	\$76.85	\$40.54
Change from prior comparative period:						
Red Lion Hotels:						
Owned and Leased Hotels	1.7	10.3%	13.9%			
Franchised Hotels	(0.8)	1.2%	-0.2%			
Total Red Lion Hotels	0.8	6.9%	8.6%			
System-wide ⁽¹⁾	0.9	6.9%	8.7%			

- (1) System-wide includes all hotels owned, leased, managed and franchised, presented on a comparable basis for hotel statistics. This includes one managed property and one hotel held as discontinued, neither utilizing the Red Lion brand.
- (2) Average occupancy represents total paid rooms divided by total available rooms. Total available rooms represents the number of rooms available multiplied by the number of days in the reported period and includes rooms taken out of service for renovation.
- (3) Average daily rate (“ADR”) represents total room revenues divided by the total number of paid rooms occupied by hotel guests.
- (4) Revenue per available room (“RevPAR”) represents total room and related revenues divided by total available rooms.

Through 2005, our strategy was to increase occupancy through strategic marketing and investment in our properties, and then to increase rates as demand increased for our rooms. For six consecutive quarters through June 2005, we increased occupancy. We built on this demand by increasing ADR during the second half of 2005 in the majority of our markets. In 2006 as we completed our room renovation program, we experienced strong growth in our hotels segment and saw improvement in its underlying fundamentals. Overall, RevPAR grew by 8.0% from 2005 and we began to see our ability to increase room rates accelerate, driving a 12.3% increase in ADR between the third quarter of 2005 and the third quarter of 2006 and an 11.7% increase between the fourth quarter of 2005 and the fourth quarter of 2006. We believe occupancy has increased positively due to all rooms at our owned and leased properties being available during the first quarter of 2007 versus not available due to renovations in 2006, offset by our continuing shift of customer base. The net impact of these business strategies has been a gain in total occupied rooms of 1.7 percentage points.

With the completion of our extensive room renovations in 2006, we saw an increase of 10.8% in hotel revenues during the first quarter of 2007. Revenues during the first quarter of 2007 compared to the first quarter of 2006 have been directly impacted by our strategy to target a higher-paying customer base by concentrating our focus on more corporate business and group stays, instead of lower rate promotional and permanent contract business. Occupancy has been affected by this shift in customer base as well as from the impact of rooms not available due to the renovations through much of 2006.

Our brand strengthening initiatives, marketing efforts and technological upgrades have achieved and are continuing to achieve desired results. Throughout 2005 and 2006, we completed installation of the new MICROS Opera Property Management System (“Opera”) in 16 of our Red Lion hotels, and plan to complete the implementation at our remaining hotels. Opera shares a single database with our central reservations system allowing for better yield management. Combined with our redesigned website, Opera further enhances our ability to manage reservations generated through all electronic channels and helps position us to efficiently and economically take advantage of electronic travel bookings.

Travelers continue to book more reservations through electronic distribution systems like our own branded website and third-party on-line travel agents (“OTAs,” or also referred to as alternative distribution systems or “ADS”). Our central reservations and distribution management technology allows us to manage the yield on these OTA channels on a real-time, hotel-by-hotel basis. Our focus on driving customers to our branded website has made it the fastest growing source of online reservations, allowing us to further maximize our yield on those types of bookings. We have merchant model agreements with leading OTA providers, which typically entitle the provider to keep a fixed percentage of the price paid by the customer for each room booked allowing us to maximize the yield of a typically lower rated market segment. Our success in managing these rates reflects our management of these distribution channels and our merchant model agreements.

Our strategy includes a growth goal of expansion to 100 markets, primarily by expanding the number of hotels franchised under the Red Lion brand, including joint ventures and direct acquisition in hub markets. We expect to add properties in large, western U.S. urban markets,

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complemented by leading properties in smaller, secondary cities, and progressively move east, leveraging the momentum of our growth in the western states. Financially we have a strong balance sheet to advance these objectives. In 2006, we completed a public offering for gross proceeds of \$64.3 million and significantly reduced our long-term debt. We have a revolving credit facility for up to \$50 million available to us, with no amount outstanding at March 31, 2007. Our credit facility can be increased to \$100 million subject to satisfaction of various conditions.

The success of our accomplishments has elevated the Red Lion brand and laid the foundation for our goals of continued growth at our existing operations and expansion into new markets through a combination of new franchises, joint ventures and hotel acquisitions. We believe the Red Lion brand and our financial position are as strong as at any other time in our history and position us well to achieve our strategic goals.

Results of Operations

For the three months ended March 31, 2007, total revenue increased \$3.6 million over the first quarter of 2006 primarily due to increased revenues generated from our hotels segment. Our net loss from continuing operations during the first quarter of 2007 improved over the comparative period, a direct result of the increased revenues discussed above. This was offset by increased depreciation and amortization expense from the completed hotel renovations and increased corporate expenses. During the first quarters of 2007 and 2006, we reported net losses of approximately \$2.0 million (or \$0.10 per share) and \$3.0 million (or \$0.22 per share). A summary of our consolidated statement of operations is as follows:

	Three months ended March 31,	
	2007	2006
Total revenue	\$ 39,304	\$ 35,748
Operating expenses	40,569	37,065
Operating loss	(1,265)	(1,317)
Other income (expense):		
Interest expense	(2,242)	(3,377)
Minority interest in partnerships, net	12	106
Other income, net	309	327
Loss from continuing operations before income taxes	(3,186)	(4,261)
Income tax benefit	(1,206)	(1,576)
Net loss from continuing operations	(1,980)	(2,685)
Loss from discontinued operations	(26)	(288)
Net loss	<u>\$ (2,006)</u>	<u>\$ (2,973)</u>
Loss per share	<u>\$ (0.10)</u>	<u>\$ (0.22)</u>

Direct margins improved in every segment, including 266 basis points from our hotels in the first quarter of 2007 from the same period in 2006, as provided in the below table, due to improvements in RevPAR, ADR and occupancy discussed above. During the first quarter of 2007, we reported a 54% improvement in EBITDA from continuing operations comparing against the same quarter a year ago.

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	Three months ended March 31,	
	2007	2006
	(in thousands)	
Hotels revenue ⁽¹⁾	\$34,381	\$31,028
Direct margin ⁽²⁾	\$ 4,407	\$ 3,152
Direct margin %	12.8%	10.2%
Franchise and management revenue	\$ 789	\$ 576
Direct margin ⁽²⁾	\$ 526	\$ 354
Direct margin %	66.7%	61.5%
Entertainment revenue	\$ 3,347	\$ 3,371
Direct margin ⁽²⁾	\$ 492	\$ 471
Direct margin %	14.7%	14.0%
Other revenue	\$ 787	\$ 773
Direct margin ⁽²⁾	\$ 304	\$ 87
Direct margin %	38.6%	11.3%
EBITDA	\$ 3,034	\$ 1,736
EBITDA from continuing operations	\$ 3,076	\$ 2,000

(1) Continuing operations only

(2) Revenues less direct operating expenses.

EBITDA represents net income (or loss) before interest expense, income tax benefit (expense) and depreciation and amortization. We utilize EBITDA as a financial measure because management believes that investors find it to be a useful tool to perform more meaningful comparisons of past, present and future operating results and as a means to evaluate the results of core on-going operations. We believe it is a complement to net income and other financial performance measures. EBITDA from continuing operations is calculated in the same manner, but excludes the operating activities of business units identified as discontinued. EBITDA is not intended to represent net income (loss) as defined by generally accepted accounting principles in the United States, and such information should not be considered as an alternative to net income (loss), cash flows from operations or any other measure of performance prescribed by generally accepted accounting principles in the United States (“GAAP”).

We use EBITDA to measure the financial performance of our owned and leased hotels because we believe interest, taxes and depreciation and amortization bear little or no relationship to our operating performance. By excluding interest expense, EBITDA measures our financial performance irrespective of our capital structure or how we finance our properties and operations. We generally pay federal and state income taxes on a consolidated basis, taking into account how the applicable taxing laws apply to us in the aggregate. By excluding taxes on income, we believe EBITDA provides a basis for measuring the financial performance of our operations excluding factors that our hotels cannot control. By excluding depreciation and amortization expense, which can vary from hotel to hotel based on historical cost and other factors unrelated to the hotels’ financial performance, EBITDA measures the financial performance of our hotels without regard to their historical cost. For all of these reasons, we believe that EBITDA provides us and investors with information that is relevant and useful in evaluating our business. We believe that the presentation of EBITDA from continuing operations is useful for the same reasons, in addition to using it for comparative purposes for our intended operations going forward.

However, because EBITDA excludes depreciation and amortization, it does not measure the capital we require to maintain or preserve our fixed assets. In addition, because EBITDA does not reflect interest expense, it does not take into account the total amount of interest we pay on outstanding debt nor does it show trends in interest costs due to changes in our borrowings or changes in interest rates. EBITDA from continuing operations excludes the activities of operations we have determined to be discontinued and does not reflect the totality of operations as experienced for the periods presented. EBITDA, as defined by us, may not be comparable to EBITDA as reported by other companies that do not define EBITDA exactly as we define the term. Because we use EBITDA to evaluate our financial performance, we reconcile it to net income, which is the most comparable financial measure calculated and presented in accordance with GAAP. EBITDA does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to operating income or net income (loss) determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity.

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

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	Three months ended March 31,	
	2007	2006
EBITDA	\$ 3,034	\$ 1,736
Income tax benefit (expense)	1,220	1,734
Interest expense	(2,231)	(3,455)
Depreciation and amortization	(4,029)	(2,988)
Net loss	\$ (2,006)	\$ (2,973)
EBITDA from continuing operations	\$ 3,076	\$ 2,000
Income tax benefit	1,206	1,576
Interest expense	(2,242)	(3,377)
Depreciation and amortization	(4,020)	(2,884)
Net loss from continuing operations	(1,980)	(2,685)
Loss from discontinued operations	(26)	(288)
Net loss	\$ (2,006)	\$ (2,973)

Revenue

A breakdown of our revenues from continuing operations for the first three months of 2007 and 2006 were as follows (in thousands):

	Three months ended March 31,	
	2007	2006
Revenues From Continuing Operations		
Hotels:		
Room revenue	\$ 22,655	\$ 19,748
Food and beverage revenue	10,962	10,380
Other department revenue	764	900
Total hotels segment revenue	<u>34,381</u>	<u>31,028</u>
Franchise and management revenue	789	576
Entertainment revenue	3,347	3,371
Other revenue	787	773
Total revenue	\$ 39,304	\$ 35,748

During the first quarter of 2007, revenue from the hotels segment increased \$3.4 million, or 10.8%, compared to the first quarter of 2006, primarily due to an increase of \$2.9 million in rooms department revenue driven by rate increases as discussed above. Current year revenues are also higher than the previous quarter as 2006 results were impacted by rooms being displaced from their associated renovations. Food and beverage revenue increased 5.6% during the first quarter of 2007 from the same period in 2006, primarily due to a 6.2% increase in banquet-related revenues. Our planned public area renovations, such as lobbies, restaurants, exteriors and banquet rooms, are substantially complete and we anticipate an increased demand for banquets and other group business that we expect to result in further gains in revenues from our food and beverage services.

Revenue from the franchise and management segment increased primarily due to a termination fee of \$142,000 relating to a hotel currently operating under the Red Lion brand that will leave the system in May 2007, as well as from a franchise application fee received by a new owner of an existing hotel within our system during the first quarter of 2007.

Revenues in the entertainment and other segments were relatively unchanged quarter-on-quarter, with entertainment revenues of \$3.3 million during the first quarter of 2007 compared to \$3.4 million in the 2006 period and other revenues of \$0.8 million during both periods.

Operating Expenses

Operating expenses include direct operating expenses for each of the operating segments, hotel facility and land lease expense, depreciation and amortization, gain or loss on asset dispositions and undistributed corporate expenses. In the aggregate, operating expenses from continuing operations during the first three months of 2007 increased \$3.5 million over 2006 as provided below:

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	Three months ended March 31,	
	2007	2006
	(In thousands)	
Operating Expenses From Continuing Operations		
Hotels	\$ 29,974	\$ 27,876
Franchise and management	263	222
Entertainment	2,855	2,900
Other	483	686
Depreciation and amortization	4,020	2,884
Hotel facility and land lease	1,714	1,695
Gain on asset dispositions, net	(190)	(182)
Undistributed corporate expenses	1,450	984
Total operating expenses	\$ 40,569	\$ 37,065

Direct hotel expenses increased 7.5% from the first quarter of 2006, compared with a hotel segment revenue increase of 10.8%. Room related expenses increased \$0.7 million, or 10.4%, and food and beverage costs increased \$0.4 million, or 4.1%, on revenue increases of 14.7% and 5.6%, respectively. Hotel segment costs were also affected by increased sales related costs, including marketing charges and compensation related to revenue performance, increased utility costs and payroll related costs directly related to the hotels. Overall, the segment had a direct profit of \$4.4 million during the first quarter in 2007, compared to \$3.2 million in the first quarter of 2006, for a direct margin improvement of 266 basis points. Hotel direct margin was 12.8% in 2007 compared to 10.2% in 2006.

Direct costs for the franchise and management segment remained approximately the same during the first three months of 2007 compared to the 2006 period, although segment profit increased due to the increase in revenues discussed above. Entertainment costs also remained similar to the prior comparative quarter, as did its segment profit. Other segment expenses decreased by \$0.2 million for a segment profit of \$0.3 million compared to \$0.1 million during the first quarter of 2006, primarily due to the sale of the real estate management business during the second quarter of 2006. During the first quarter of 2006, the real estate segment reported a direct profit of \$0.4 million.

Depreciation and amortization increased 39.4% during the first quarter of 2007 compared to 2006, related directly to our hotel room renovations substantially completed at the end of 2006.

Undistributed corporate expenses were \$0.5 million higher during 2007 compared to 2006 primarily attributable to increased SOX related expenditures over the prior period, including increased audit, legal and outside consultant fees, and increased compensation levels, including SFAS 123(R) option and ESPP expenses. Undistributed corporate expenses include general and administrative charges such as corporate payroll, legal expenses, charitable contributions, director and officers insurance, bank service charges and outside accountants and various other consultants' expense. We consider these expenses to be "undistributed" because the costs are not directly related to our business segments and therefore are not further distributed. However, costs that can be identified to a particular segment are distributed, such as accounting, human resources and information technology, and are included in direct expenses.

Interest Expense

Interest expense for the three months ended March 31, 2007, decreased 33.6% to \$2.2 million, compared to \$3.4 million recorded during the comparable period in 2006, as a result of the repayment of almost \$60 million in debt in 2006. Our average pre-tax interest rate on debt during 2007 was 7.7% compared to 7.9% during the 2006 period.

Income Taxes

Income tax benefit on continuing operations recognized during 2007 decreased \$0.4 million to \$1.2 million compared to \$1.6 million in the first quarter of 2006, due to the reduced loss before income tax benefits. The experienced rate on pre-tax net income differed from the statutory combined federal and state tax rates primarily due to the utilization of certain incentive tax credits allowed under federal law.

Discontinued Operations

At March 31, 2007, we had remaining for sale within discontinued operations a commercial complex located in Spokane, Washington, and one hotel located in Kalispell, Montana. During the first quarter of 2007, we recorded a loss from discontinued operations of approximately \$26,000, compared to a loss of \$0.3 million during the first quarter of 2006. The three months ended March 31, 2006, include the activities of two hotels sold during that quarter and three others that were sold later in the year. Aggregate proceeds from the sale of the two hotels totaled \$5.3 million, resulting in a gain of approximately \$30,000 net of income tax expense.

Liquidity and Capital Resources

Our financial position is as strong as it has ever been and we are positioned well for our growth plans. Our hotel renovations have increased our ADR and revenues during the first quarter of 2007, resulting in improved cash flows over the first quarter of 2006 by \$3.3 million. A comparative summary of our balance sheets at March 31, 2007 and December 31, 2006 is provided below:

	March 31, 2007	December 31, 2006
Consolidated balance sheet data (in thousands):		
Working capital ⁽¹⁾	\$ 7,623	\$ 10,217
Assets of discontinued operations	\$ 14,656	\$ 14,539
Other assets held for sale	\$ 715	\$ 715
Property and equipment, net	\$250,980	\$249,860
Total assets	\$347,906	\$351,438
Liabilities of discontinued operations	\$ 4,148	\$ 4,112
Total long-term debt	\$ 84,752	\$ 85,272
Debentures due Red Lion Hotels Capital Trust	\$ 30,825	\$ 30,825
Total liabilities	\$165,304	\$167,647
Total stockholders' equity	\$182,602	\$183,791

(1) Represents current assets less current liabilities, excluding assets and liabilities of discontinued operations and assets held for sale.

Our short-term liquidity needs during 2007 include funds for operating activities, interest payments on our outstanding indebtedness and capital expenditures, which we expect to generally meet through net cash provided by operations and from our existing cash and cash equivalents of \$13.6 million at March 31, 2007. We may also draw upon our \$50 million credit facility. At March 31, 2007, we had an additional \$4.1 million of restricted cash available under securitized borrowing arrangements for future payment of furniture, fixtures and equipment, repairs, insurance premiums and real and personal property taxes. We expect to meet our long-term liquidity requirements for the funding of property acquisitions, renovations and other non-recurring capital improvements through net cash provided by operations, long-term secured and unsecured indebtedness, including our new credit facility, and joint ventures.

By the end of the first quarter of 2007, we were substantially finished with our major renovation initiative for our owned and leased hotels that began in 2005. The capital investment program represented one of the most significant facility improvement programs in company history, and we remain committed to ongoing capital improvements in order to continue to enhance the Red Lion brand by improving our hotel quality to enhance our guests' experiences. We believe that by continuing to improve upon the quality of our existing product in areas where customers' quality expectations are growing, we position our hotels to take advantage of the growth potential in our existing markets and make the Red Lion brand more attractive for franchise opportunities. During the first quarters of 2007 and 2006, we spent a total of \$5.2 million and \$10.7 million, respectively, on capital improvements. During the remainder of 2007, we anticipate spending an aggregate of \$12.5 million to complete our hotel renovations and fund routine capital expenditures and additional improvements.

Operating Activities

Net cash used in operations decreased 63.3% during the first quarter of 2007 compared to the 2006 period, totaling \$1.9 million compared to \$5.3 million in 2006. Non-cash income statement expenses including depreciation and amortization, provision for deferred tax and stock based compensation, totaled \$4.1 million during the first three months of 2007 compared to \$3.2 million in 2006, increasing cash flow from operations by \$0.9 million quarter-on-quarter. Working capital changes, including restricted cash, receivables, accruals, payables and inventories, required less cash during the 2007 period (\$4.0 million) than in 2006 (\$5.5 million). At March 31, 2007, restricted cash held in escrow for future payments of insurance, property taxes, repairs and other items as required by debt agreements, increased by \$1.3 million from December 31, 2006, which we expect to receive during the second quarter of 2007.

Investing Activities

Net cash provided by investing activities totaled \$2.4 million during the first three months of 2007, compared to cash provided in the 2006 period of \$6.2 million. Cash additions to property and equipment decreased 51.6% in 2007 from 2006, although offset by net cash proceeds of \$5.1 million received primarily from the sale of two hotels during 2006. Also affecting the decrease was the liquidation of variable rate demand notes during the first quarter of 2007, which as of December 31, 2006, totaled \$7.6 million. Total proceeds received during the first quarter of 2006 from these short-term investments totaled \$11.8 million.

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Financing Activities

Net financing activities provided cash of approximately \$0.1 million during the first three months of 2007 compared to \$0.8 million used during the 2006 period. During the first quarter of 2006, \$0.9 million was repaid in scheduled principal long-term debt payments compared to \$0.6 million paid during 2007. Net financing activities during the 2007 period benefited from the exercise by employees of stock options resulting in proceeds to the company of \$0.4 million.

At March 31, 2007, we had total debt obligations of \$119.5 million, of which \$64.4 million was securitized debt collateralized by individual hotels with fixed interest rates ranging from 6.7% to 8.1%. Included within outstanding debt are debentures due the Red Lion Hotels Capital Trust of \$30.8 million, which are uncollateralized and due the trust at a fixed rate of 9.5%.

Of the \$64.4 million in securitized debt, three pools of cross securitized debt exist: (i) one consisting of five properties with total borrowings of \$21.3 million; (ii) a second consisting of two properties with total borrowings of \$19.2 million; and (iii) a third consisting of four properties with total borrowings of \$23.9 million. Each pool of securitized debt and the other collateralized hotel borrowings include defeasance provisions for early repayment.

Contractual Obligations

The following table summarizes our significant contractual obligations as of March 31, 2007, including contractual obligations of business units identified as discontinued on our consolidated balance sheet (in thousands):

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Long-term debt ⁽¹⁾	\$129,304	\$ 8,628	\$20,507	\$37,943	\$ 62,226
Operating leases ⁽²⁾	82,650	6,646	12,294	12,220	51,490
Debentures due Red Lion Hotels Capital Trust ⁽¹⁾	<u>156,012</u>	<u>2,928</u>	<u>5,857</u>	<u>5,857</u>	<u>141,370</u>
Total contractual obligations ⁽³⁾	<u>\$367,966</u>	<u>\$18,202</u>	<u>\$38,658</u>	<u>\$56,020</u>	<u>\$255,086</u>

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

(2) Operating lease amounts are net of estimated sublease income of \$9.9 million annually.

(3) With regard to purchase obligations, we are not party to any material agreements to purchase goods or services that are enforceable or legally binding as to fixed or minimum quantities to be purchased or stated price terms.

Off-balance Sheet Arrangements

As of March 31, 2007, we had no off-balance sheet arrangements, as defined by SEC regulations, that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Other Matters

Franchise and Management Contracts

At March 31, 2007, our system of hotels included one hotel under a management contract and 24 hotels under franchise agreements. During 2006, we added a franchise property in Baton Rouge, Louisiana, that is expected to open in mid-2007 after a multi-million dollar renovation. In January 2007, we executed a new franchise agreement with a new owner of the Red Lion Hotel Elko, Nevada. As part of the agreement, the hotel will undergo renovations to comply with our enhanced Red Lion brand standards. During the second quarter of 2007, a franchised hotel in San Diego, California, will cease being a member of the Red Lion system.

Acquisitions

There were no hotels acquired or other material operating acquisitions during the first quarter of 2007.

Seasonality

Our business is subject to seasonal fluctuations. Significant portions of our revenues and profits are realized from May through October. During 2006, revenues during the second and third quarters approximated 25.7% and 30.2%, respectively, of total revenues for the year, compared to revenues of 21.0% and 23.2% of total revenues during the first and fourth quarters.

Inflation

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

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and (ii) the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates. We consider a critical accounting policy to be one that is both important to the portrayal of our financial condition and results of operations and requires management's most subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our significant accounting policies are described in Note 2 of Notes to Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2006. However, we have identified our most critical accounting policies and estimates below. Management has discussed the development and selection of our critical accounting policies and estimates with the audit committee of our board of directors, and the audit committee has reviewed the disclosures presented below.

Revenue Recognition and Receivables

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

- **Hotels** — Room rental and food and beverage sales from owned and leased hotels. Revenues are recognized when our services have been performed, generally at the time of the hotel stay or guest's visit to the restaurant. This treatment is consistent with others within our industry. Our revenues are significantly impacted by global, national and regional economic conditions affecting the travel and hospitality industry, as well as the relative market share of our hotels compared with our competitors.
- **Franchise and Management** — Fees received in connection with the franchise of our brand names and management fees we earn from managing third-party owned hotels. Franchise and management revenues are recognized as earned in accordance with the contractual terms of the franchise or management agreements.
- **Entertainment** — Computerized event ticketing services and promotion of Broadway style shows and other special events. Where we act as an agent and receive a net fee or commission, it is recognized as revenue in the period the services are performed. When we are the promoter of an event and are at-risk for the production, revenues and expenses are recorded in the period of the event performance.

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

Long-lived Assets

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

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

Assets Held For Sale

We account for assets held for sale in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets." Assets held for sale are recorded at the lower of their historical carrying value or market value. Revenues earned and recorded expenses associated with the operations of the properties held for sale prior to the sale date are recorded in discontinued operations, unless we anticipate continuing involvement after the sale. Depreciation is suspended when the asset is determined to be held for sale.

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The real estate market, including the market for our hotels, is affected by many factors beyond our control and our ability to sell an asset in response to changing economic, financial or investment conditions is limited. Once we have made the decision to sell one or more of our assets, we may be unable to do so or, even if we are successful, it may take us longer than anticipated to find willing purchasers or the sale may be on less favorable terms. If an asset is ultimately not sold within the guidelines of SFAS No. 144, depreciation would be recaptured for the period the asset was classified as held for sale. In addition, if an asset held for sale is not ultimately sold, our review of its carrying value may result in a possible impairment based on its estimated fair market value.

Intangible Assets

Our intangible assets include brands and goodwill which we account for in accordance with SFAS No. 142 “Goodwill and Other Intangible Assets.” We do not amortize our brands and goodwill. Instead, we test for impairment annually or more frequently as events or circumstances indicate the carrying amount of an asset may not be recoverable. Our goodwill and other intangible asset impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit, subject to the same general assumptions discussed above for long-lived assets. At March 31, 2007 and December 31, 2006, our recorded goodwill and other intangible assets not subject to amortization remained unchanged at \$28.0 million. While we have not recognized an impairment loss since we originally recorded goodwill, changes in our estimates and assumptions could affect, potentially materially, our financial condition or results of operations in the future.

Our other intangible assets include management, marketing and lease contracts, the value of which is amortized on a straight-line basis over the weighted average life of the agreements and totaled \$12.0 million and \$12.1 million, respectively, at March 31, 2007 and December 31, 2006. The assessment of these contracts requires us to make certain judgments, including estimated future cash flow from the applicable properties.

New Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of FIN 48, a company must review all of its uncertain tax positions and make a determination as to whether its position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a position meets the more-likely-than-not criterion, then the related tax benefit is measured based on the cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of the provisions of FIN 48 did not have a material impact on the Company’s financial condition or results of operations.

In June 2006, the Emerging Issues Task Force (“EITF”) issued EITF No. 06-2, “Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences.” Under EITF No. 06-2, the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period if an employee’s right to such absence (a) requires the completion of a minimum service period and (b) in which the benefit does not increase with additional years of service pursuant to paragraph 6(b) of SFAS No. 43 for arrangements in which the individual continues to be a compensated employee and is not required to perform duties for the entity during the absence. EITF No. 06-2 was effective for us on January 1, 2007, and the adoption of the provisions of EITF No. 06-2 did not materially impact our financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements itself. However, this statement applies under other accounting pronouncements that require or permit fair value measurements and may therefore change current practice if an alternative measure of fair value has been used. SFAS No. 157 applies an exchange price notion for fair value consistent with previously preferred practice, with a focus on exit price and market-based measurements as compared to entry price and entity-specific measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged and the new measurement criteria are generally to be applied prospectively. The Company is currently evaluating the impact SFAS No. 157 will have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115” (“SFAS No. 159”). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, the objective of which is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement, which is consistent with FASB’s long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157 “Fair Value Measurements.” The Company is currently evaluating the impact SFAS No. 159 will have on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We believe there has been no material change to our market risk since the end of our last fiscal year. Historically we have been exposed to market risk from changes in interest rates and we may be again in the future. However, at March 31, 2007, all of our outstanding debt was subject to currently fixed interest rates. We have managed our exposure to these risks by monitoring available financing alternatives. We do not foresee any significant changes in our exposure to fluctuations in interest rates or in how such exposure is managed in the future.

The below table summarizes our debt obligations at March 31, 2007, including those held as a component of liabilities of discontinued operations, on our consolidated balance sheet (in thousands). During the first quarter of 2007, recurring scheduled principal payments of \$0.5 million were made that were included as debt obligations at December 31, 2006.

	2007	2008	2009	2010	2011	Thereafter	Total	Fair Value
Long-term debt								
Fixed rate	\$1,739	\$5,403	\$2,669	\$2,860	\$24,993	\$50,962	\$88,626	\$88,106
Average interest rate							7.73%	
Debentures due Red Lion								
Hotels Capital Trust	\$ —	\$ —	\$ —	\$ —	\$ —	\$30,825	\$30,825	\$32,320
Average interest rate							9.50%	

Item 4. Controls and Procedures

As of March 31, 2007, we carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective to ensure that material information required to be disclosed by us in the reports filed or submitted by us under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within time periods specified in Securities and Exchange Commission rules and forms.

During the first quarter of 2007, we migrated our fixed asset accounting from a legacy system to Microsoft Dynamics – Great Plains (“GP”), which calculates our depreciation expense. While utilizing more functionality within GP and further streamlining our accounting system, the migration of fixed assets did not materially change our overall system of internal controls over financial reporting.

There were no other changes in internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f), during the first three months of 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our annual report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our annual report may not be the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results in the future.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None

Item 6. Exhibits

Index to Exhibits

Exhibit Number	Description
10.1	Executive Employment Agreement dated April 12, 2007, between the Registrant and Arthur M. Coffey
10.2	Executive Employment Agreement dated April 12, 2007, between the Registrant and Anupam Narayan
10.3	Executive Employment Agreement dated April 12, 2007, between the Registrant and John M. Taffin
10.4	Executive Employment Agreement dated April 12, 2007, between the Registrant and Thomas McKeirnan
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

	<u>Signature</u>	<u>Title</u>	<u>Date</u>
By:	<u>/s/ Anupam Narayan</u> Anupam Narayan	Executive Vice President, Chief Investment Officer and Chief Financial Officer (Principal Financial Officer)	May 9, 2007
By:	<u>/s/ Anthony F. Dombrowik</u> Anthony F. Dombrowik	Senior Vice President, Corporate Controller (Principal Accounting Officer)	May 9, 2007

EXECUTIVE EMPLOYMENT AGREEMENT

EXECUTIVE EMPLOYMENT AGREEMENT, is executed effective on April 12, 2007 (“Effective Date”) by and between Red Lion Hotels Corporation, a Washington corporation (the “Company”), and Arthur Coffey (the “Executive”) and is intended to replace and supercede that certain Executive Employment Agreement between the Company and the Executive dated April 3, 2003. The Company desires to employ the Executive in the capacities of President and Chief Executive Officer, and the Executive desires to be so employed, on the terms and subject to the conditions set forth in this agreement (the “Agreement”); Now, therefore, in consideration of the mutual covenants set forth herein and other good and valuable consideration the parties hereto hereby agree as follows:

1. Employment; Term.

The Company employs the Executive, and the Executive agrees to be employed by the Company, upon the terms and subject to the conditions set forth herein, for a term commencing on the Effective Date and terminating on December 31, 2007 unless terminated earlier in accordance with Section 5 of this Agreement; provided, that such term shall automatically be extended from time to time for additional periods of one calendar year from the date on which it would otherwise expire unless the Executive, on one hand, or the Company, on the other, gives notice to the other party or parties not less than 120 days prior to such date that it elects to permit the term of this Agreement to expire without extension on such date. (The initial term of this Agreement as the same may be extended in accordance with the terms of this Agreement is hereinafter referred to as the “Term”).

2. Positions; Conduct.

(a) During the Term, the Executive will hold the titles and offices of, and serve in the positions of, President and/or Chief Executive Officer of the Company. The Executive shall report to the Board of Directors of the Company and shall perform such specific duties and services (including service as an officer, director or equivalent position of any direct or indirect subsidiary without additional compensation) as the Board of Directors shall reasonably request consistent with the Executive’s positions.

(b) During the Term, the Executive agrees to devote his full business time and attention to the business and affairs of the Company and to faithfully and diligently perform, to the best of his ability, all of his duties and responsibilities hereunder. Nothing in this Agreement shall preclude the Executive from devoting reasonable time and attention to the following (the “Exempted Activities”): (i) serving, with the approval of the Board of Directors of the Company, as an officer, director, trustee or member of any organization, (ii) engaging in charitable and community activities and (iii) managing his personal investments and affairs. In no event shall the Exempted Activities involve any material conflict of interest with the interests of the Company or, individually or collectively, interfere materially with the performance by the Executive of his duties and responsibilities under this Agreement. The Board of Directors of the Company have approved as an Exempted Activity the Executive’s employment as a director and officer of Inland Northwest Corporation, previously a wholly-owned subsidiary of the Company, for which the Company provides certain management and administrative services.

(c) The Executive’s office and place of rendering his services under this Agreement shall be in the principal executive offices of the Company. During the Term, the Company shall provide the Executive with executive office space, and administrative and secretarial assistance and other support services consistent with his positions and with his duties and responsibilities hereunder.

3. Board of Directors; Committees.

It is understood that the right to elect directors of the Company is by law vested in the stockholders and directors of the Company, and it is mutually contemplated that service on the Board of Directors or on any committee of the Board of Directors is not a condition of this Agreement.

4. Salary; Additional Compensation; Perquisites and Benefits.

- (a) During the Term, the Company and the Subsidiary will pay the Executive a base salary at an annual rate of not less than \$390,000 per annum, subject to annual review by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") and in the discretion of such Committee, increased from time to time. Once increased, such base salary may not be decreased. Such salary shall be paid in periodic installments in accordance with the Company's standard practice, but not less frequently than semi-monthly.
- (b) For each fiscal year during the Term, the Executive will be eligible to receive a bonus on such terms as may from time to time be established by the Compensation Committee.
- (c) During the Term, the Executive will participate in all plans now existing or hereafter adopted by the Company for the management employees or the general benefit of the their employees, such as stock option or other incentive compensation plans, life and health insurance plans, or other insurance plans and benefits on the same basis and subject to the same qualifications as other senior executive officers. To the extent permitted by law, the Executive shall be given credit for his years of service to any predecessor entity of the Company in determining all waiting periods and vesting periods under such plans.
- (d) The Company will reimburse the Executive, in accordance with its standard policies from time to time in effect, for all out-of-pocket business expenses as may be incurred by the Executive in the performance of his duties under this Agreement.
- (e) The Executive shall be entitled to vacation time to be credited and taken in accordance with the Company's policy from time to time in effect for senior executives, which in any event shall not be less than a total of four weeks per calendar year.
- (f) The Company shall indemnify the Executive to the fullest extent permitted under the law of the State of Washington.

5. Termination

- (a) The Term will terminate upon the Executive's death or, upon notice by the Company or the Executive to the other, in the case of a determination of the Executive's Disability. As used herein the term "Disability" means the Executive's inability to perform his duties and responsibilities under this Agreement for a period of more than 120 consecutive days, or for more than 180 days, whether or not continuous, during any 365-day period, due to physical or mental incapacity or impairment. A determination of Disability will be made by a physician satisfactory to both the Executive and the Company; provided that if they cannot agree as to a physician, then each shall select a physician and these two together shall select a third physician whose determination of Disability shall be binding on the Executive and the Company. Should the Executive become incapacitated, his employment shall continue and all base and other compensation due the Executive hereunder shall continue to be paid through the date upon which the Executive's employment is terminated for Disability in accordance with this section.
- (b) The Term may be terminated by the Company upon notice to the Executive upon the occurrence of any event constituting "Cause" as defined herein.

(c) The Term may be terminated by the Executive upon notice to the Company (i) within six months of the occurrence of any event constituting “Good Reason” as defined herein or (ii) within six months of a “Change of Control” as defined herein.

6. Severance.

(a) If the Term is terminated by the Company for Cause, the Company will pay to the Executive an aggregate amount equal to the Executive’s accrued and unpaid base salary through the date of such termination, additional salary payments in lieu of the Executive’s accrued and unused vacation time, unreimbursed business expenses, unreimbursed medical, dental and other employee benefit expenses in accordance with the applicable plans, and any and all other benefits provided under the terms of applicable employee plans to terminated employees (the “Standard Termination Payments”).

(b) If the Term is terminated upon the Executive’s death or Disability, the Company and the Subsidiary will pay to the Executive’s estate or the Executive, as the case may be, (i) the Standard Termination Payments, (ii) a lump sum payment, if applicable, equal to the Executive’s earned but unpaid bonus under the Company’s Executive Officers Variable Pay Plan dated effective January 1, 2005 (including any successor or replacement bonus plans, the “VPP”), for the prior fiscal year, (iii) a lump sum payment equal to the Executive’s target bonus under the VPP for the fiscal year in which the death or Disability occurs prorated for the portion of the year elapsed at the time of the termination, and (iv) all death or disability payments or other employee benefits under their employee benefit plans.

(c) If the Company terminates the Executive’s employment under this Agreement without Cause other than by reason of his death or Disability or if the Executive terminates his employment hereunder for Good Reason, the Company shall (i) pay the Executive the Standard Termination Payments, (ii) pay the Executive a lump sum payment equal to the Executive’s earned but unpaid bonus under the VPP for the previous fiscal year, if applicable, (iii) pay the Executive a lump sum payment equal to the Executive’s target bonus under the VPP for the fiscal year in which the termination occurs prorated for the portion of the year elapsed at the time of the termination; (iv) pay the Executive a lump sum payment equal to twice the Executive’s total compensation for the previous fiscal year (but not less than twice \$390,000); and (v) continue in effect the Executive’s benefits with respect to life, health and insurance plans or their equivalent for two years.

(d) If, following a Change of Control: the Executive terminates his employment hereunder within 6 months following such Change of Control; the Company shall (i) pay the Executive the Standard Termination Payments, (ii) pay the Executive a lump sum payment equal to the Executive’s earned but unpaid bonus under the VPP for the previous fiscal year, if applicable, (iii) pay the Executive a lump sum payment equal to the Executive’s target bonus under the VPP for the fiscal year in which the termination occurs prorated for the portion of the year elapsed at the time of the termination; (iv) pay the Executive a lump sum payment equal to twice the Executive’s total cash compensation for the previous fiscal year (but not less than twice \$390,000); and (v) continue in effect the Executive’s benefits with respect to life, health and insurance plans or their equivalent for two years.

(e) If the Term is not extended pursuant to the proviso to Section 1 as a result of the Company giving notice thereunder that it elects to permit the term of this Agreement to expire without extension, the Company shall (i) pay the Executive the Standard Termination Payments, (ii) pay the Executive a lump sum payment equal to the Executive’s earned but unpaid bonus under the VPP for the previous fiscal year, (iii) pay the Executive a lump sum payment equal to the Executive’s target bonus under the VPP for the fiscal year in which the termination occurs prorated for the portion of the year elapsed at the time of the termination; (iv) pay the Executive a lump sum payment equal to twice the Executive’s total compensation for the previous fiscal year (but not less than twice \$390,000); and (v) continue in effect the Executive’s benefits with respect to life, health and insurance plans or their equivalent for two years.

(f) If the Company terminates the Executive’s employment under this Agreement without Cause other

than by reason of his death or Disability, or if the Term is not extended as a result of the Company giving notice that it elects to permit the term of this Agreement to expire without extension, or if there is a Change of Control, or if the Executive terminates his employment hereunder for Good Reason pursuant to Section 5(c.): all stock options granted to the Executive shall immediately vest and be exercisable and any stock grant to the Executive shall immediately vest and all Company imposed restrictions on restricted stock issued to the Executive shall be terminated.

(g) As used herein, the term "Cause" means: (i) the Executive's willful and intentional failure or refusal to perform or observe any of his material duties, responsibilities or obligations set forth in this Agreement, if such breach is not cured within 30 days after notice thereof to the Executive by the Company, which notice shall state that such conduct shall, without cure, constitute Cause and makes specific reference to this Section 6(g); (ii) any willful and intentional act of the Executive involving fraud, theft, embezzlement or dishonesty affecting the Company; or (iii) the Executive's conviction of (or a plea of nolo contendere to) an offense which is a felony in the jurisdiction involved.

(h) As used herein, the term "Good Reason" means: (i) assignment of the Executive of duties materially inconsistent with the Executive's positions as described in Section 2(a), provided, however, it shall not be Good Reason if the Company separates the positions of Chief Executive Officer and President so long as Executive continues to hold the position and duties of Chief Executive Officer; (ii) the removal of the Executive from the positions as described in Section 2(a), provided, however, it shall not be Good Reason if the Company separates the positions of Chief Executive Officer and President so long as Executive continues to hold the position and duties of Chief Executive Officer; (iii) the change in the location of the Company's principal executive offices to a location outside the Spokane, Washington metropolitan area without the Executive's consent which may be withheld at his sole discretion; or (iv) any material breach of this Agreement by the Company which is continuing.

(i) As used herein, the term "Change of Control" means the occurrence of any one of the following events: (i) the majority of the Board of Directors of the Company consists of individuals other than Incumbent Members, which shall mean the members of such Boards on the Effective Date; provided that any person becoming a director subsequent to the Effective Date whose election or nomination for election was supported by the Executive or a majority of the directors who then comprised the Incumbent Directors shall be considered an Incumbent Director; (ii) the Company adopts a plan of liquidation providing for the distribution of all or substantially all of the assets of the Company on a consolidated basis; (iii) the Company ceases to act as the general partner of Red Lion Hotels Limited Partnership, provided, however, the foregoing shall not apply if substantially all of the assets of the partnership are transferred to and owned by the Company or its Affiliates. As used herein, an Affiliate of a person or other entity means a person or other entity that directly or indirectly controls, is controlled by or is under common control with the person or other entity specified (including without limitation any investment entity managed by the person or other entity specified or a person or entity that directly or indirectly controls, is controlled by or under common control with the person or other entity specified).

(j) The amounts required to be paid and the benefits required to be made available to the Executive under this Section 6 are absolute. Under no circumstances shall the Executive, upon the termination of his employment hereunder, be required to seek alternative employment and, in the event that the Executive does secure other employment, no compensation or other benefits received in respect of such employment shall be set-off or in any other way limit or reduce the obligations of the Company and the Subsidiary under this Section 6.

7. Confidential Information.

(a) The Executive acknowledges that the Company and its subsidiaries or affiliated ventures ("Company Affiliates") own and have developed and compile, and will in the future own, develop and compile certain Confidential Information and that during the course of his rendering services to the

Company Confidential Information has and will be disclosed to the Executive by the Company and its Affiliates. The Executive hereby agrees that, during the Term (except as required to conduct the business of the Company) and for a period of three years thereafter, he will not use or disclose, furnish or make accessible to anyone, directly or indirectly, any Confidential Information of the Company or its Affiliates.

(b) As used herein, the term “Confidential Information” means any trade secrets, confidential or proprietary information, or other knowledge, know-how, information, documents or materials, owned, developed or possessed by a Company Affiliate pertaining to its businesses the confidentiality of which such company takes reasonable measures to protect, including, but not limited to, trade secrets, techniques, know-how (including designs, plans, procedures, processes and research records), software, computer programs, innovations, discoveries, improvements, research, developments, test results, reports, specifications, data, formats, marketing data and business plans and strategies, agreements and other forms of documents, expansion plans, budgets, projections, and salary, staffing and employment information. Notwithstanding the foregoing, Confidential Information shall not in any event include information which (i) was generally known or generally available to the public prior to its disclosure to the Executive, (ii) becomes generally known or generally available to the public subsequent to its disclosure to the Executive through no wrongful act of the Executive, (iii) is or becomes available to the Executive from sources other than the Company Affiliates which sources are not known to the Executive to be under any duty of confidentiality with respect thereto or (iv) the Executive is required to disclose by applicable law or regulation or by order of any court or federal, state or local regulatory or administrative body (provided that the Executive provides the Company with prior notice of the contemplated disclosure and reasonably cooperates with the Company, at the Company’s sole expense, in seeking a protective order or other appropriate protection of such information).

8. Restrictive Covenants.

(a) The Executive agrees that during his employment hereunder and for a period of twelve months thereafter the Executive will not, directly or indirectly, engage or participate or make any financial investments in (other than ownership of up to 5% of the aggregate of any class of securities of any corporation if such securities are listed on a national stock exchange or under section 12(g) of the Securities Exchange Act of 1934) or become employed by, or act as an agent or principal of, or render advisory or other management services to or for, any Competing Business in the Territory. As used herein the term “Competing Business” means any business then conducted by the Company which produces over 10% of the Company’s revenue and the term “Territory” means any state of the United States or province of Canada or Mexico in which the Company conducts its business. Notwithstanding the foregoing, nothing in this Agreement shall limit or prohibit the Executive from engaging in the Exempted Activities.

(b) The Executive agrees that during his employment hereunder and for a period of twenty-four months thereafter he will not solicit, raid, entice or induce any person that then is or at any time during the twelve-month period prior to the end of the Term was an employee of the Company or a Company Affiliate (other than a person whose employment with such Company Affiliate has been terminated by such Company Affiliate), to become employed by any person, firm or corporation.

9. Specific Performance.

(a) The Executive acknowledges that the services to be rendered by him hereunder are of a special, unique, extraordinary and personal character and that the Company Affiliates would sustain irreparable harm in the event of a violation by the Executive of Section 7 or 8 hereof. Therefore, in addition to any other remedies available, the Company shall be entitled to specific enforcement and/or an injunction from any court of competent jurisdiction restraining the Executive from committing or continuing any such violation of this Agreement without proving actual damages or posting a bond or other security. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of damages.

(b) If any of the restrictions on activities of the Executive contained in Sections 7 or 8 shall for any reason be held by a court of competent jurisdiction to be excessively broad as to duration, geographical scope or activity of subject, such restrictions shall be construed so as thereafter to be limited or reduced to be enforceable to the maximum extent compatible with the applicable law as it shall then appear; it being understood that by the execution of this Agreement the parties hereto regard such restrictions as reasonable and compatible with their respective rights.

(c) Notwithstanding anything in this Agreement to the contrary, in the event that the Company fails to make any payment of any amounts or provide any of the benefits to the Executive when due as called for under Section 6 of this Agreement and such failure shall continue for twenty (20) days after notice thereof from the Executive, all restrictions on the activities of the Executive under Sections 7 and 8 shall be immediately and permanently terminated.

10. Withholding/Additional Payments.

(a) The parties agree that all payments to be made to the Executive by the Company pursuant to the Agreement shall be subject to all applicable withholding obligations of such company.

(b) The parties intend that the severance payments and other compensation provided for herein are reasonable compensation for Executive's services to Company and shall not constitute "excess parachute payments" within the meaning of Section 280G(b)(1) of the Internal Revenue Code of 1986, as amended (the "Code"). In the event the parties determine that the severance benefits or any other benefits or payments to which Executive is entitled pursuant to this Agreement or otherwise (collectively, the "Total Benefits"), will be subject to the excise tax imposed pursuant to Section 4999 of the Code ("Excise Tax"), Company shall pay to Executive an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive, after deduction of any Excise Tax on the Total Benefits and any federal, state and local income taxes, Excise Tax, and FICA and Medicare withholding taxes upon the payment provided for by this Section, will be equal to the Total Benefits.

For purposes of this Section, Executive will be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Excise Tax is (or would be) payable and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive's residence on the Date of Termination, net of the reduction in federal income taxes that could be obtained from deduction of such state and local taxes (calculated by assuming that any reduction under Section 68 of the Code in the amount of itemized deductions allowable to Executive applies first to reduce the amount of such state and local income taxes that would otherwise be deductible by Executive).

In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of Executive's employment, Executive shall repay to Company, at the time the amount of such reduction in Excise Tax is fully determined, the portion of the Gross-Up Payment attributable to such reduction (plus that portion of the Gross-Up Payment attributable to the Excise Tax, federal, state and local income taxes and FICA and Medicare withholding taxes imposed on the Gross-Up Payment being repaid by Executive to the extent that such repayment results in a reduction in Excise Tax, FICA and Medicare withholding taxes and/or a federal, state or local income tax deduction) plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of Executive's employment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), Company shall make an additional Gross-Up Payment to Executive in respect of such excess (plus any interest, penalties or additions payable by Executive with respect to such excess) at the time that the amount of such excess is finally determined.

The parties' obligations under this Section shall survive termination of this Agreement.

11. Notices.

All notices required or permitted hereunder shall be in writing and shall be deemed given and received when delivered personally, four days after being mailed if sent by registered or certified mail, postage pre-paid, or by one day after delivery if sent by air courier (for next-day delivery) with evidence of receipt thereof or by facsimile with receipt confirmed by the addressee. Such notices shall be addressed respectively:

If to the Executive , to:

Mr. Arthur Coffey
South 13312 Valley Chapel Road
Valleyford, WA 99036

If to the Company , to:

Red Lion Hotels Corporation
201 W. North River Drive
Spokane, WA 99201
Attn: Chairman of Board of Directors

With copy to:

Red Lion Hotels Corporation
201 W. North River Drive
Spokane, WA 99201
Attn. Corporate Counsel

or to any other address of which such party may have given notice to the other parties in the manner specified above.

12. Miscellaneous.

(a) This Agreement is a personal contract calling for the provision of unique services by the Executive, and the Executive's rights and obligations hereunder may not be sold, transferred, assigned, pledged or hypothecated by the Executive. The rights and obligations of the Company hereunder will be binding upon and run in favor of their respective successors and assigns.

(b) This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Washington.

(c) Any controversy arising out of or relating to this Agreement or any breach hereof shall be settled by arbitration in Spokane, Washington by a single neutral arbitrator who shall be a retired federal or state court judge in accordance with the Commercial Arbitration Rules of the American Arbitration Association and judgment upon any award rendered may be entered in any court having jurisdiction thereof, except in the event of a controversy relating to any alleged violation by the Executive of Section 7 or 8 hereof, the Company and the Subsidiary shall be entitled to seek injunctive relief from a court of competent jurisdiction without the requirement to seek arbitration. In addition to all other relief, the substantially prevailing party in any arbitration or court action shall be entitled to their reasonable attorney fees and costs incurred by reason of the controversy (including any appellate review and bankruptcy or enforcement proceedings).

(d) The headings of the various sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

(e) The provisions of this Agreement which by their terms call for performance subsequent to the expiration or termination of the Term shall survive such expiration or termination.

(f) Upon the Effective Date, this Agreement supersedes any existing employment agreements between the Employee and the Company and any of its Affiliates all of which shall be terminated upon the Commencement Date of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date first above written.

EXECUTIVE:

COMPANY:

RED LION HOTELS CORPORATION

Arthur M. Coffey

By _____
On behalf of the Board of Directors

EXECUTIVE EMPLOYMENT AGREEMENT

EXECUTIVE EMPLOYMENT AGREEMENT is dated effective as of April 12, 2007 (“Effective Date”) by and between Red Lion Hotels Corporation, a Washington corporation (the “Company”), and Anupam Narayan (the “Executive”), and is intended to replace and supercede that certain Executive Employment Agreement between the Company and the Executive dated November 22, 2004.

The Company desires to employ the Executive in the capacities of Executive Vice President, Chief Investment Officer, and the Executive desires to be so employed, on the terms and subject to the conditions set forth in this agreement (the “Agreement”);

Now, therefore, in consideration of the mutual covenants set forth herein and other good and valuable consideration the parties hereto hereby agree as follows:

1. Employment; Term.

The Company employs the Executive, and the Executive agrees to be employed by the Company, upon the terms and subject to the conditions set forth herein, for a term commencing on the Effective Date and terminating on December 31, 2007 unless terminated earlier in accordance with Section 5 of this Agreement; provided, that such term shall automatically be extended from time to time for additional periods of one calendar year from the date on which it would otherwise expire unless the Executive, on one hand, or the Company, on the other, gives notice to the other party or parties not less than 120 days prior to such date that it elects to permit the term of this Agreement to expire without extension on such date. (The initial term of this Agreement as the same may be extended in accordance with the terms of this Agreement is hereinafter referred to as the “Term”).

2. Positions; Conduct.

(a) During the Term, the Executive will hold the title and office of, and serve in the position of, Executive Vice President, Chief Investment Officer of the Company. In the event of a vacancy in the Company’s Chief Financial Officer position, the Company may, at its option and for no additional compensation, appoint Executive the Company’s Chief Financial Officer. Such position shall be in addition to other Company positions Executive may then occupy. Executive agrees to accept such appointment and serve the Company in such capacity if so appointed. The Executive shall report to the Chief Executive Officer of the Company and shall perform such specific duties and services (including service as an officer, director or equivalent position of any direct or indirect subsidiary without additional compensation) as the Company shall reasonably request consistent with the Executive’s positions.

(b) During the Term, the Executive agrees to devote his full business time and attention to the business and affairs of the Company and to faithfully and diligently perform, to the best of his ability, all of his duties and responsibilities hereunder. Nothing in this Agreement shall preclude the Executive from devoting reasonable time and attention to the following (the “Exempted Activities”): (i) serving, with the approval of the Chief Executive Officer of the Company, as an officer, director, trustee or member of any organization, (ii) engaging in charitable and community activities and (iii) managing his personal investments and affairs. In no event shall the Exempted Activities involve any material conflict of interest with the interests of the Company or, individually or collectively, interfere materially with the performance by the Executive of his duties and responsibilities under this Agreement.

(c) The Executive's office and place of rendering his services under this Agreement shall be in the principal executive offices of the Company. During the Term, the Company shall provide the Executive with executive office space, and administrative and secretarial assistance and other support services consistent with his positions and with his duties and responsibilities hereunder.

3. Board of Directors; Committees.

It is understood that the right to elect directors of the Company is by law vested in the stockholders and directors of the Company, and it is mutually contemplated that service on the Board of Directors of the Company or any of its subsidiaries or on any respective committee of the Board of Directors of the Company or any of its subsidiaries is not a condition of this Agreement.

4. Salary; Additional Compensation; Perquisites and Benefits.

(a) During the Term, the Company will pay the Executive a base salary at an annual rate of not less than \$260,000 per annum, subject to annual review by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") and in the discretion of such Committee, increased from time to time. Once increased, such base salary may not be decreased. Such salary shall be paid in periodic installments in accordance with the Company's standard practice, but not less frequently than semi-monthly.

(b) During the Term, Executive shall be eligible to receive a cash bonus ("Bonus") as follows: Executive shall participate in such annual Bonus plans or programs as may be adopted by the Company's Compensation Committee (collectively with any of its successors in authority, the "Committee") from time to time for senior executives, provided, however, that conditioned upon attainment of target performance measure requirements based on one or more performance measures as may be determined by the Committee, the target Bonus for each calendar year during the Term for which Executive shall be eligible shall be 40% of Executive's base salary (partial years pro rated).

(c) The Company hereby confirms its award to Executive on November 22, 2004 of 18,535 shares of restricted stock units under the Company's 1998 Stock Incentive Plan (the "Equity Incentive Plan") (or successor plan) issued or to be issued, as applicable, as follows:

(i) Upon or as soon as practicable after the November 22, 2004, 3,707 shares of restricted common stock in the Company;

(ii) On or as soon as practical after the first, second, third and fourth anniversaries of November 22, 2004, provided that Executive remains employed in the position or positions contemplated in this Agreement on each such anniversary of November 22, 2004, an annual award of 3,707 shares of restricted common stock in the Company; and

(iii) The restricted common stock in the Company awarded pursuant to Sections 4(c)(i) and (ii) above shall be fully vested upon issuance. Executive shall be entitled to no further issuances of restricted common stock of the Company if Executive is not employed by the Company in the positions contemplated in this Agreement on of the first, second, third or fourth anniversaries of the November 22, 2004. Executive acknowledges and agrees that restricted common stock of the Company may be subject to various restrictions under the Company's Equity Incentive Plan, and under state and federal law and regulations promulgated thereunder. Executive acknowledges receipt of a copy of the Equity Incentive Plan.

(d) Intentionally deleted.

(e) Nothing in the foregoing provisions of this Section 4 shall be deemed to prevent the Board in its

sole discretion from awarding any additional or other amounts of cash, restricted stock or Options or other equity based awards in respect of any whole or partial year during the Term.

(f) The Company will reimburse the Executive, in accordance with its standard policies from time to time in effect, for all out-of-pocket business expenses as may be incurred by the Executive in the performance of his duties under this Agreement.

(g) The Executive shall be entitled to vacation time to be credited and taken in accordance with the Company's policy from time to time in effect for senior executives, which in any event shall not be less than a total of four weeks per calendar year.

(h) The Company shall indemnify the Executive to the fullest extent permitted under the law of the State of Washington.

5. Termination

(a) The Term will terminate upon the Executive's death or, upon notice by the Company or the Executive to the other, in the case of a determination of the Executive's Disability. As used herein the term "Disability" means the Executive's inability to perform his duties and responsibilities under this Agreement for a period of more than 120 consecutive days, or for more than 180 days, whether or not continuous, during any 365-day period, due to physical or mental incapacity or impairment. A determination of Disability will be made by a physician satisfactory to both the Executive and the Company; provided that if they cannot agree as to a physician, then each shall select a physician and these two together shall select a third physician whose determination of Disability shall be binding on the Executive and the Company. Should the Executive become incapacitated, his employment shall continue and all base and other compensation due the Executive hereunder shall continue to be paid through the date upon which the Executive's employment is terminated for Disability in accordance with this section.

(b) The Term may be terminated by the Company upon notice to the Executive upon the occurrence of any event constituting "Cause" as defined herein.

(c) The Term may be terminated by the Executive upon notice to the Company within six months of the occurrence of any event constituting "Good Reason" as defined herein.

6. Severance.

(a) If the Term is terminated by the Company for Cause, the Company will pay to the Executive an aggregate amount equal to the Executive's accrued and unpaid base salary through the date of such termination, additional salary payments in lieu of the Executive's accrued and unused vacation time, unreimbursed business expenses, unreimbursed medical, dental and other employee benefit expenses in accordance with the applicable plans, and any and all other benefits provided under the terms of applicable employee plans to terminated employees (the "Standard Termination Payments").

(b) If the Term is terminated upon the Executive's death or Disability, the Company and the Subsidiary will pay to the Executive's estate or the Executive, as the case may be, (i) the Standard Termination Payments, (ii) a lump sum payment, if applicable, equal to the Executive's earned but unpaid bonus under the Company's Executive Officers Variable Pay Plan dated effective January 1, 2005 (including any successor or replacement bonus plans, the "VPP"), for the prior fiscal year, (iii) a lump sum payment equal to the Executive's target bonus under the VPP for the fiscal year in which the death or Disability occurs prorated for the portion of the year elapsed at the time of the termination, and (iv) all death or disability payments or other employee benefits under their employee benefit plans.

(c) Subject to Section 6(d), if the Company terminates the Executive's employment under this Agreement without Cause other than by reason of his death or Disability or if the Executive terminates his employment hereunder for Good Reason, the Company shall (i) pay the Executive the Standard

Termination Payments, (ii) pay the Executive a lump sum payment equal to the Executive's earned but unpaid bonus under the VPP for the previous fiscal year, (iii) pay the Executive a lump sum payment equal to the Executive's target bonus under the VPP for the fiscal year in which the termination occurs prorated for the portion of the year elapsed at the time of the termination, (iv) pay the Executive a lump sum payment equal to twice the Executive's total cash compensation for the previous fiscal year (but not less than twice \$260,000), and (v) continue in effect the Executive's benefits with respect to life, health and insurance plans or their equivalent for two years. Such payments and the obligations set forth below in Section 6(e) shall be the Company's only obligations to Executive in such a case. The Company shall incur no further liability for such a termination.

(d) If the Term is not extended pursuant to the proviso to Section 1 as a result of the Company giving notice thereunder that it elects to permit the term of this Agreement to expire without extension, the Company shall (i) pay the Executive the Standard Termination Payments, (ii) pay the Executive a lump sum payment equal to the Executive's earned but unpaid bonus under the VPP for the previous fiscal year, (iii) pay the Executive a lump sum payment equal to the Executive's target bonus under the VPP for the fiscal year in which the termination occurs prorated for the portion of the year elapsed at the time of the termination, (iv) pay the Executive a lump sum payment equal to twice the Executive's total cash compensation for the previous fiscal year (but not less than twice \$260,000), and (v) continue in effect the Executive's benefits with respect to life, health and insurance plans or their equivalent for two years. Such payments and the obligations set forth below in Section 6(e) shall be the Company's only obligations to Executive in such a case. The Company shall incur no further liability for such a termination.

(e) If the Company terminates the Executive's employment under this Agreement without Cause other than by reason of his death or Disability, or if the Term is not extended as a result of the Company giving notice that it elects to permit the term of this Agreement to expire without extension, or if there is a Change of Control, or if the Executive terminates his employment hereunder for Good Reason pursuant to Section 5 (c): all stock options granted to the Executive shall immediately vest and be exercisable and any stock grant to the Executive shall immediately vest, all Company imposed restrictions on restricted stock issued to the Executive shall be terminated and all restricted stock awarded to Executive but not yet issued shall be promptly issued to Executive.

(f) As used herein, the term "Cause" means: (i) the Executive's willful and intentional failure or refusal to perform or observe any of his material duties, responsibilities or obligations set forth in this Agreement, if such breach is not cured within 30 days after notice thereof to the Executive by the Company, which notice shall state that such conduct shall, without cure, constitute Cause and makes specific reference to this Section 6(f); (ii) any willful and intentional act of the Executive involving fraud, theft, embezzlement or dishonesty affecting the Company; or (iii) the Executive's conviction of (or a plea of nolo contendere to) an offense which is a felony in the jurisdiction involved.

(g) As used herein, the term "Good Reason" means the occurrence of any of the following, without the prior written consent of the Executive: (i) assignment to the Executive of duties materially inconsistent with the Executive's positions and responsibilities as described in Section 2(a) hereof; (ii) the removal of the Executive from the positions as described in Section 2(a); (iii) any material breach of this Agreement by the Company which is continuing; or (iv) a Change of Control; provided that a Change of Control shall only constitute Good Reason if, within 12 months after such Change of Control: (a) the Company changes its headquarters office location to a location more than 40 miles from the city limits of Spokane, Washington, (b) the Company changes Executive's job titles, or (c) Executive experiences a significant diminution in his duties or responsibilities or compensation compared to prior to the Change of Control, other than in connection with the termination of the Executive's employment for Cause, Disability or as a result of the Executive's death or by the Executive other than for Good Reason. Notwithstanding anything to the contrary in this Section 6(g), the Executive shall not be deemed to have Good Reason unless the Executive gives the Company written notice that the specified conduct or event has occurred giving rise to Executive having Good Reason, and the Company fails to cure such conduct or event within thirty (30) days after the receipt of such notice.

(h) As used herein, the term “Change of Control” means the occurrence of any one of the following events: (i) the majority of the Board of Directors of the Company consists of individuals other than Incumbent Members, which shall mean the members of the Company’s Board of Directors on the Effective Date; provided that any person becoming a director subsequent to the Effective Date whose election or nomination for election was supported by the Executive or a majority of the directors who then comprised the Incumbent Directors shall be considered an Incumbent Director; (ii) the Company adopts a plan of liquidation providing for the distribution of all or substantially all of the assets of the Company on a consolidated basis; (iii) the Company sells all or substantially all of its assets on a consolidated basis in a single transaction or series of transactions; or (iv) the Company ceases to act as the general partner of Red Lion Hotels Limited Partnership, provided, however, the foregoing shall not apply if substantially all of the assets of the partnership are transferred to and owned by the Company or its Affiliates. As used herein, an Affiliate of a person or other entity means a person or other entity that directly or indirectly controls, is controlled by or is under common control with the person or other entity specified (including without limitation any investment entity managed by the person or other entity specified or a person or entity that directly or indirectly controls, is controlled by or under common control with the person or other entity specified).

(i) The amounts required to be paid and the benefits required to be made available to the Executive under this Section 6 are absolute. Under no circumstances shall the Executive, upon the termination of his employment hereunder, be required to seek alternative employment and, in the event that the Executive does secure other employment, no compensation or other benefits received in respect of such employment shall be set-off or in any other way limit or reduce the obligations of the Company and the Subsidiary under this Section 6.

7. Confidential Information.

(a) The Executive acknowledges that the Company and its subsidiaries or affiliated ventures (“Company Affiliates”) own and have developed and compile, and will in the future own, develop and compile certain Confidential Information and that during the course of his rendering services to the Company Confidential Information has and will be disclosed to the Executive by the Company and its Affiliates. The Executive hereby agrees that, during the Term (except as required to conduct the business of the Company) and thereafter, he will not in any way use or disclose, furnish or make accessible to anyone, directly or indirectly, any Confidential Information of the Company or its Affiliates.

(b) As used herein, the term “Confidential Information” means any trade secrets, confidential or proprietary information, or other knowledge, know-how, information, documents or materials, owned, developed or possessed by a Company Affiliate pertaining to its businesses the confidentiality of which such company takes reasonable measures to protect, including, but not limited to, trade secrets, techniques, know-how (including designs, plans, procedures, processes and research records), software, computer programs, innovations, discoveries, improvements, research, developments, test results, reports, specifications, data, formats, marketing data and business plans and strategies, business opportunities, guest lists, vendor terms, agreements and other forms of documents, expansion plans, budgets, projections, and salary, staffing and employment information. Notwithstanding the foregoing, Confidential Information shall not in any event include information which (i) was generally known or generally available to the public prior to its disclosure to the Executive, (ii) becomes generally known or generally available to the public subsequent to its disclosure to the Executive through no wrongful act of the Executive, (iii) is or becomes available to the Executive from sources other than the Company Affiliates which sources are not known to the Executive to be under any duty of confidentiality with respect thereto or (iv) the Executive is required to disclose by applicable law or regulation or by order of any court or federal, state or local regulatory or administrative body (provided that the Executive provides the Company with prior notice of the contemplated disclosure and reasonably cooperates with the Company, at the Company’s sole expense, in seeking a protective order or other appropriate protection of such information).

8. Restrictive Covenants.

(a) The Executive agrees that during his employment hereunder and for a period of twelve months thereafter the Executive will not, directly or indirectly, engage or participate or make any financial investments in (other than ownership of up to 5% of the aggregate of any class of securities of any corporation if such securities are listed on a national stock exchange or under section 12(g) of the Securities Exchange Act of 1934) or become employed by, or act as an agent or principal of, or render advisory or other management services to or for, any Competing Business. As used herein the term "Competing Business" means any business which includes hotel ownership, hotel management, hotel services or hotel franchising and has a headquarters in Washington, Oregon, Idaho, Montana, Utah or Northern California, defined as the area from San Jose, California north to California's border with Oregon.

(b) The Executive agrees that during his employment hereunder and for a period of twenty-four months thereafter he will not solicit, raid, entice or induce any person that then is or at any time during the twelve-month period prior to the end of the Term was an employee of the Company or a Company Affiliate (other than a person whose employment with such Company Affiliate has been terminated by such Company Affiliate), to become employed by any person, firm or corporation.

9. Specific Performance.

(a) The Executive acknowledges that the services to be rendered by him hereunder are of a special, unique, extraordinary and personal character and that the Company Affiliates would sustain irreparable harm in the event of a violation by the Executive of Section 7 or 8 hereof. Therefore, in addition to any other remedies available, the Company shall be entitled to specific enforcement and/or an injunction from any court of competent jurisdiction restraining the Executive from committing or continuing any such violation of this Agreement without proving actual damages or posting a bond or other security. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of damages.

(b) If any of the restrictions on activities of the Executive contained in Sections 7 or 8 shall for any reason be held by a court of competent jurisdiction to be excessively broad as to duration, geographical scope or activity of subject, such restrictions shall be construed so as thereafter to be limited or reduced to be enforceable to the maximum extent compatible with the applicable law as it shall then appear; it being understood that by the execution of this Agreement the parties hereto regard such restrictions as reasonable and compatible with their respective rights.

(c) Notwithstanding anything in this Agreement to the contrary, in the event that the Company fails to make any payment of any amounts or provide any of the benefits to the Executive when due as called for under Section 6 of this Agreement and such failure shall continue for twenty (20) days after notice thereof from the Executive, all restrictions on the activities of the Executive under Sections 7 and 8 shall be immediately and permanently terminated.

10. Withholding; Additional Payments.

(a) The parties agree that all payments to be made to the Executive by the Company pursuant to the Agreement shall be subject to all applicable withholding obligations of such company.

(b) The parties intend that the severance payments and other compensation provided for herein are reasonable compensation for Executive's services to Company and shall not constitute "excess parachute payments" within the meaning of Section 280G(b)(1) of the Internal Revenue Code of 1986, as amended (the "Code"). In the event the parties determine that the severance benefits or any other benefits or payments to which Executive is entitled pursuant to this Agreement or otherwise (collectively, the "Total

Benefits”), will be subject to the excise tax imposed pursuant to Section 4999 of the Code (“Excise Tax”), Company shall pay to Executive an additional amount (the “Gross-Up Payment”) such that the net amount retained by Executive, after deduction of any Excise Tax on the Total Benefits and any federal, state and local income taxes, Excise Tax, and FICA and Medicare withholding taxes upon the payment provided for by this Section, will be equal to the Total Benefits.

For purposes of this Section, Executive will be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Excise Tax is (or would be) payable and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive’s residence on the Date of Termination, net of the reduction in federal income taxes that could be obtained from deduction of such state and local taxes (calculated by assuming that any reduction under Section 68 of the Code in the amount of itemized deductions allowable to Executive applies first to reduce the amount of such state and local income taxes that would otherwise be deductible by Executive).

In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of Executive’s employment, Executive shall repay to Company, at the time the amount of such reduction in Excise Tax is fully determined, the portion of the Gross-Up Payment attributable to such reduction (plus that portion of the Gross-Up Payment attributable to the Excise Tax, federal, state and local income taxes and FICA and Medicare withholding taxes imposed on the Gross-Up Payment being repaid by Executive to the extent that such repayment results in a reduction in Excise Tax, FICA and Medicare withholding taxes and/or a federal, state or local income tax deduction) plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of Executive’s employment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), Company shall make an additional Gross-Up Payment to Executive in respect of such excess (plus any interest, penalties or additions payable by Executive with respect to such excess) at the time that the amount of such excess is finally determined.

The parties’ obligations under this Section shall survive termination of this Agreement.

11. Notices .

All notices required or permitted hereunder shall be in writing and shall be deemed given and received when delivered personally, four days after being mailed if sent by registered or certified mail, postage pre-paid, or by one day after delivery if sent by air courier (for next-day delivery) with evidence of receipt thereof or by facsimile with receipt confirmed by the addressee. Such notices shall be addressed respectively:

If to the Executive , to:

Anupam Narayan
1118 West 9th Ave.
Spokane, WA 99204

If to the Company , to:

Red Lion Hotels Corporation
201 W. North River Drive
Spokane, WA 99201
Attn: Chief Executive Officer

With copy to:

Red Lion Hotels Corporation
201 W. North River Drive
Spokane, WA 99201

Attn. Corporate Counsel

or to any other address of which such party may have given notice to the other parties in the manner specified above.

12. Miscellaneous.

(a) This Agreement is a personal contract calling for the provision of unique services by the Executive, and the Executive's rights and obligations hereunder may not be sold, transferred, assigned, pledged or hypothecated by the Executive. The rights and obligations of the Company hereunder will be binding upon and run in favor of their respective successors and assigns.

(b) This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Washington.

(c) Any controversy arising out of or relating to this Agreement or any breach hereof shall be settled by arbitration in Spokane, Washington by a single neutral arbitrator who shall be a retired federal or state court judge in accordance with the Commercial Arbitration Rules of the American Arbitration Association and judgment upon any award rendered may be entered in any court having jurisdiction thereof, except in the event of a controversy relating to any alleged violation by the Executive of Section 7 or 8 hereof, the Company and the Subsidiary shall be entitled to seek injunctive relief from a court of competent jurisdiction without the requirement to seek arbitration. In addition to all other relief, the substantially prevailing party in any arbitration or court action shall be entitled to their reasonable attorney fees and costs incurred by reason of the controversy (including any appellate review and bankruptcy or enforcement proceedings).

(d) The headings of the various sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

(e) The provisions of this Agreement which by their terms call for performance subsequent to the expiration or termination of the Term shall survive such expiration or termination.

(f) Upon the Effective Date, this Agreement supersedes any existing employment agreements between the Employee and the Company and any of its Affiliates all of which shall be terminated upon the Commencement Date of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date first above written.

EXECUTIVE:

Anupam Narayan

COMPANY:

RED LION HOTELS CORPORATION

By _____
Arthur Coffey, President and Chief Executive
Officer

EXECUTIVE EMPLOYMENT AGREEMENT

EXECUTIVE EMPLOYMENT AGREEMENT, is dated effective as of April 12, 2007 (“Effective Date”) by and between Red Lion Hotels Corporation, a Washington corporation (the “Company”), and John Taffin (the “Executive”) and is intended to replace and supercede that certain Executive Employment Agreement between the Company and the Executive dated July 24, 2006.

The Company desires to employ the Executive in the capacities of Executive Vice President, Hotel Operations, and the Executive desires to be so employed, on the terms and subject to the conditions set forth in this agreement (the “Agreement”);

Now, therefore, in consideration of the mutual covenants set forth herein and other good and valuable consideration the parties hereto hereby agree as follows:

1. Employment; Term.

The Company employs the Executive, and the Executive agrees to be employed by the Company, upon the terms and subject to the conditions set forth herein, for a term commencing on the Effective Date and terminating on December 31, 2007 unless terminated earlier in accordance with Section 5 of this Agreement; provided, that such term shall automatically be extended from time to time for additional periods of one calendar year from the date on which it would otherwise expire unless the Executive, on one hand, or the Company, on the other, gives notice to the other party or parties not less than 120 days prior to such date that it elects to permit the term of this Agreement to expire without extension on such date. (The initial term of this Agreement as the same may be extended in accordance with the terms of this Agreement is hereinafter referred to as the “Term”).

2. Positions; Conduct.

(a) During the Term, the Executive will hold the title and office of, and serve in the position of, Executive Vice President, Hotel Operations of the Company. The Executive shall report to the Chief Executive Officer of the Company and shall perform such specific duties and services (including service as an officer, director or equivalent position of any direct or indirect subsidiary without additional compensation) as the Company shall reasonably request consistent with the Executive’s position.

(b) During the Term, the Executive agrees to devote his full business time and attention to the business and affairs of the Company and to faithfully and diligently perform, to the best of his ability, all of his duties and responsibilities hereunder. Nothing in this Agreement shall preclude the Executive from devoting reasonable time and attention to the following (the “Exempted Activities”): (i) serving, with the approval of the Chief Executive Officer of the Company, as an officer, director, trustee or member of any organization, (ii) engaging in charitable and community activities and (iii) managing his personal investments and affairs. In no event shall the Exempted Activities involve any material conflict of interest with the interests of the Company or, individually or collectively, interfere materially with the performance by the Executive of his duties and responsibilities under this Agreement. Company and Executive specifically agree that Executive’s oversight of the operations and management of the Yogo Inn in Lewistown, Montana (the “Yogo Inn”) shall constitute an Exempted Activity so long as such oversight does not interfere with Executive’s duties and responsibilities hereunder.

(c) The Executive’s office and place of rendering his services under this Agreement shall be in the principal executive offices of the Company. During the Term, the Company shall provide the Executive with executive office space, and administrative and secretarial assistance and other support services consistent with his positions and with his duties and responsibilities hereunder.

3. Board of Directors; Committees.

It is understood that the right to elect directors of the Company is by law vested in the stockholders and directors of the Company, and it is mutually contemplated that service on the Board of Directors of the Company or any of its subsidiaries or on any respective committee of the Board of Directors of the Company or any of its subsidiaries is not a condition of this Agreement.

4. Salary; Additional Compensation; Perquisites and Benefits.

- (a) During the Term, the Company will pay the Executive a base salary at an annual rate of not less than \$210,000 per annum, subject to annual review by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") and in the discretion of such Committee, increased from time to time. Once increased, such base salary may not be decreased. Such salary shall be paid in periodic installments in accordance with the Company's standard practice, but not less frequently than semi-monthly.
- (b) During the Term, Executive shall be eligible to receive a cash bonus ("Bonus") as follows: Executive shall participate in such annual Bonus plans or programs as may be adopted by the Company's Compensation Committee (collectively with any of its successors in authority, the "Committee") from time to time for senior executives, provided, however, that conditioned upon attainment of target performance measure requirements based on one or more performance measures as may be determined by the Committee, the target Bonus for each calendar year during the Term for which Executive shall be eligible shall be 30% of Executive's base salary.
- (c) The Board (or the committee to which it has delegate applicable authority) in its sole discretion may award any additional or other amounts of cash, restricted stock or Options or other equity based awards in respect of any whole or partial year during the Term.
- (d) The Company will reimburse the Executive, in accordance with its standard policies from time to time in effect, for all out-of-pocket business expenses as may be incurred by the Executive in the performance of his duties under this Agreement.
- (e) The Executive shall be entitled to vacation time to be credited and taken in accordance with the Company's policy from time to time in effect for senior executives, which in any event shall not be less than a total of four weeks per calendar year.
- (f) The Company shall indemnify the Executive to the fullest extent permitted under the law of the State of Washington.

5. Termination

- (a) The Term will terminate upon the Executive's death or, upon notice by the Company or the Executive to the other, in the case of a determination of the Executive's Disability. As used herein the term "Disability" means the Executive's inability to perform his duties and responsibilities under this Agreement for a period of more than 120 consecutive days, or for more than 180 days, whether or not continuous, during any 365-day period, due to physical or mental incapacity or impairment. A determination of Disability will be made by a physician satisfactory to both the Executive and the Company; provided that if they cannot agree as to a physician, then each shall select a physician and these two together shall select a third physician whose determination of Disability shall be binding on the Executive and the Company. Should the Executive become incapacitated, his employment shall continue and all base and other compensation due the Executive hereunder shall continue to be paid through the date upon which the Executive's employment is terminated for Disability in accordance with this section.

(b) The Term may be terminated by the Company upon notice to the Executive upon the occurrence of any event constituting "Cause" as defined herein.

(c) The Term may be terminated by the Executive upon notice to the Company within six months of the occurrence of any event constituting "Good Reason" as defined herein.

6. Severance.

(a) If the Term is terminated by the Company for Cause, the Company will pay to the Executive an aggregate amount equal to the Executive's accrued and unpaid base salary through the date of such termination, additional salary payments in lieu of the Executive's accrued and unused vacation time, unreimbursed business expenses, unreimbursed medical, dental and other employee benefit expenses in accordance with the applicable plans, and any and all other benefits provided under the terms of applicable employee plans to terminated employees (the "Standard Termination Payments").

(b) If the Term is terminated upon the Executive's death or Disability, the Company and the Subsidiary will pay to the Executive's estate or the Executive, as the case may be, (i) the Standard Termination Payments, (ii) a lump sum payment, if applicable, equal to the Executive's earned but unpaid bonus under the Company's Executive Officers Variable Pay Plan dated effective January 1, 2005 (including any successor or replacement bonus plans, the "VPP"), for the prior fiscal year, (iii) a lump sum payment equal to the Executive's target bonus under the VPP for the fiscal year in which the death or Disability occurs prorated for the portion of the year elapsed at the time of the termination, and (iv) all death or disability payments or other employee benefits under their employee benefit plans.

(c) If the Company terminates the Executive's employment under this Agreement without Cause other than by reason of his death or Disability or if the Executive terminates his employment hereunder for Good Reason, the Company shall (i) pay the Executive the Standard Termination Payments, (ii) pay the Executive a lump sum payment equal to the Executive's earned but unpaid bonus under the VPP for the previous fiscal year, if applicable, (iii) pay the Executive a lump sum payment equal to the Executive's target bonus under the VPP for the fiscal year in which the termination occurs prorated for the portion of the year elapsed at the time of the termination, (iv) pay the Executive a lump sum payment equal to twice the Executive's total cash compensation for the previous fiscal year (but not less than twice \$210,000), and (v) continue in effect the Executive's benefits with respect to life, health and insurance plans or their equivalent for two years. Such payments and the obligations set forth below in Section 6(e) shall be the Company's only obligations to Executive in such a case. The Company shall incur no further liability for such a termination.

(d) If the Term is not extended pursuant to the proviso to Section 1 as a result of the Company giving notice thereunder that it elects to permit the term of this Agreement to expire without extension, the Company shall (i) pay the Executive the Standard Termination Payments, (ii) pay the Executive a lump sum payment equal to the Executive's earned but unpaid bonus under the VPP for the previous fiscal year, if applicable, (iii) pay the Executive a lump sum payment equal to the Executive's target bonus under the VPP for the fiscal year in which the termination occurs prorated for the portion of the year elapsed at the time of the termination, (iv) pay the Executive a lump sum payment equal to twice the Executive's total cash compensation for the previous fiscal year (but not less than twice \$210,000), and (v) continue in effect the Executive's benefits with respect to life, health and insurance plans or their equivalent for two years. Such payments and the obligations set forth below in Section 6(e) shall be the Company's only obligations to Executive in such a case. The Company shall incur no further liability for such a termination.

(e) If the Company terminates the Executive's employment under this Agreement without Cause other than by reason of his death or Disability, or if the Term is not extended as a result of the Company giving notice that it elects to permit the term of this Agreement to expire without extension, or if there is a Change of Control, or if the Executive terminates his employment hereunder for Good Reason pursuant to Section 5 (c): all stock options granted to the Executive shall immediately vest and be exercisable and any stock grant to the Executive shall immediately vest, all Company imposed restrictions on restricted stock

issued to the Executive shall be terminated and all restricted stock awarded to Executive but not yet issued shall be promptly issued to Executive.

(f) As used herein, the term “Cause” means: (i) the Executive’s willful and intentional failure or refusal to perform or observe any of his material duties, responsibilities or obligations set forth in this Agreement, if such breach is not cured within 30 days after notice thereof to the Executive by the Company, which notice shall state that such conduct shall, without cure, constitute Cause and makes specific reference to this Section 6(f); (ii) any willful and intentional act of the Executive involving fraud, theft, embezzlement or dishonesty affecting the Company; or (iii) the Executive’s conviction of (or a plea of nolo contendere to) an offense which is a felony in the jurisdiction involved.

(g) As used herein, the term “Good Reason” means the occurrence of any of the following, without the prior written consent of the Executive: (i) assignment to the Executive of duties materially inconsistent with the Executive’s positions and responsibilities as described in Section 2(a) hereof; (ii) the removal of the Executive from the position as described in Section 2(a); (iii) any material breach of this Agreement by the Company which is continuing; or (iv) a Change of Control; provided that a Change of Control shall only constitute Good Reason if, within 18 months after such Change of Control: (a) the Company changes its headquarters office location to a location more than 40 miles from the city limits of Spokane, Washington, (b) the Company changes Executive’s job titles, or (c) Executive experiences a significant diminution in his duties or responsibilities or compensation compared to prior to the Change of Control, other than in connection with the termination of the Executive’s employment for Cause, Disability or as a result of the Executive’s death or by the Executive other than for Good Reason. Notwithstanding anything to the contrary in this Section 6(g), the Executive shall not be deemed to have Good Reason unless the Executive gives the Company written notice that the specified conduct or event has occurred giving rise to Executive having Good Reason, and the Company fails to cure such conduct or event within thirty (30) days after the receipt of such notice.

(h) As used herein, the term “Change of Control” means the occurrence of any one of the following events: (i) the majority of the Board of Directors of the Company consists of individuals other than Incumbent Members, which shall mean the members of the Company’s Board of Directors on the Effective Date; provided that any person becoming a director subsequent to the Effective Date whose election or nomination for election was supported by the Executive or a majority of the directors who then comprised the Incumbent Directors shall be considered an Incumbent Director; (ii) the Company adopts a plan of liquidation providing for the distribution of all or substantially all of the assets of the Company on a consolidated basis; or (iii) the Company sells all or substantially all of its assets on a consolidated basis in a single transaction or series of transactions. As used herein, an Affiliate of a person or other entity means a person or other entity that directly or indirectly controls, is controlled by or is under common control with the person or other entity specified (including without limitation any investment entity managed by the person or other entity specified or a person or entity that directly or indirectly controls, is controlled by or under common control with the person or other entity specified).

(i) The amounts required to be paid and the benefits required to be made available to the Executive under this Section 6 are absolute. Under no circumstances shall the Executive, upon the termination of his employment hereunder, be required to seek alternative employment and, in the event that the Executive does secure other employment, no compensation or other benefits received in respect of such employment shall be set-off or in any other way limit or reduce the obligations of the Company and the Subsidiary under this Section 6.

7. Confidential Information.

(a) The Executive acknowledges that the Company and its Affiliates own and have developed and compile, and will in the future own, develop and compile certain Confidential Information and that during the course of his rendering services to the Company Confidential Information has and will be disclosed to the Executive by the Company and its Affiliates. The Executive hereby agrees that, during the Term (except as required to conduct the business of the Company) and thereafter, he will not in any way use or disclose, furnish or make accessible to anyone, directly or indirectly, any Confidential Information of the Company or its Affiliates.

(b) As used herein, the term “Confidential Information” means any trade secrets, confidential or proprietary information, or other knowledge, know-how, information, documents or materials, owned, developed or possessed by a Company Affiliate pertaining to its businesses the confidentiality of which such company takes reasonable measures to protect, including, but not limited to, trade secrets, techniques, know-how (including designs, plans, procedures, processes and research records), software, computer programs, innovations, discoveries, improvements, research, developments, test results, reports, specifications, data, formats, marketing data and business plans and strategies, business opportunities, guest lists, vendor terms, agreements and other forms of documents, expansion plans, budgets, projections, and salary, staffing and employment information. Notwithstanding the foregoing, Confidential Information shall not in any event include information which (i) was generally known or generally available to the public prior to its disclosure to the Executive, (ii) becomes generally known or generally available to the public subsequent to its disclosure to the Executive through no wrongful act of the Executive, (iii) is or becomes available to the Executive from sources other than the Company Affiliates which sources are not known to the Executive to be under any duty of confidentiality with respect thereto or (iv) the Executive is required to disclose by applicable law or regulation or by order of any court or federal, state or local regulatory or administrative body (provided that the Executive provides the Company with prior notice of the contemplated disclosure and reasonably cooperates with the Company, at the Company’s sole expense, in seeking a protective order or other appropriate protection of such information).

8. Restrictive Covenants.

(a) The Executive agrees that during his employment hereunder and for a period of twelve months thereafter the Executive will not, directly or indirectly, engage or participate or make any financial investments in (other than ownership of up to 5% of the aggregate of any class of securities of any corporation if such securities are listed on a national stock exchange or under section 12(g) of the Securities Exchange Act of 1934) or become employed by, or act as an agent or principal of, or render advisory or other management services to or for, any Competing Business. As used herein the term “Competing Business” means any business which includes hotel ownership, hotel management, hotel services or hotel franchising and has a headquarters in Washington, Oregon, Idaho, Montana, Utah or Northern California, defined as the area from San Jose, California north to California’s border with Oregon. Notwithstanding anything to the contrary in this Section 8(a) the Company acknowledges that the Executive owns 50% of the Yogo Inn in Lewistown, Montana and does not consider it a Competing Business. Further notwithstanding anything to the contrary in this Section 8(a), without the Company’s prior written consent, during Executive’s employment hereunder and for a period of twelve months thereafter, the Executive will not work full-time or part-time in Lewistown, Montana as an employee or independent contractor of the Yogo Inn, provided that Executive may oversee the Yogo Inn’s operations and management in a manner consistent with his oversight of the Yogo Inn’s operations and management during the Term.

(b) The Executive agrees that during his employment hereunder and for a period of twenty-four months thereafter he will not solicit, raid, entice or induce any person that then is or at any time during the twelve-month period prior to the end of the Term was an employee of the Company or a Company Affiliate (other than a person whose employment with such Company Affiliate has been terminated by such Company Affiliate), to become employed by any person, firm or corporation.

9. Specific Performance.

(a) The Executive acknowledges that the services to be rendered by him hereunder are of a special, unique, extraordinary and personal character and that the Company Affiliates would sustain irreparable harm in the event of a violation by the Executive of Section 7 or 8 hereof. Therefore, in addition to any other remedies available, the Company shall be entitled to specific enforcement and/or an injunction from any court of competent jurisdiction restraining the Executive from committing or continuing any such violation of this Agreement without proving actual damages or posting a bond or other security. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of damages.

(b) If any of the restrictions on activities of the Executive contained in Sections 7 or 8 shall for any reason be held by a court of competent jurisdiction to be excessively broad as to duration, geographical scope or activity of subject, such restrictions shall be construed so as thereafter to be limited or reduced to be enforceable to the maximum extent compatible with the applicable law as it shall then appear; it being understood that by the execution of this Agreement the parties hereto regard such restrictions as reasonable and compatible with their respective rights.

(c) Notwithstanding anything in this Agreement to the contrary, in the event that the Company fails to make any payment of any amounts or provide any of the benefits to the Executive when due as called for under Section 6 of this Agreement and such failure shall continue for twenty (20) days after notice thereof from the Executive, all restrictions on the activities of the Executive under Sections 7 and 8 shall be immediately and permanently terminated.

10. Withholding; Additional Payments.

(a) The parties agree that all payments to be made to the Executive by the Company pursuant to the Agreement shall be subject to all applicable withholding obligations of the Company.

(b) The parties intend that the severance payments and other compensation provided for herein are reasonable compensation for Executive's services to Company and shall not constitute "excess parachute payments" within the meaning of Section 280G(b)(1) of the Internal Revenue Code of 1986, as amended (the "Code"). In the event the parties determine that the severance benefits or any other benefits or payments to which Executive is entitled pursuant to this Agreement or otherwise (collectively, the "Total Benefits"), will be subject to the excise tax imposed pursuant to Section 4999 of the Code ("Excise Tax"), Company shall pay to Executive an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive, after deduction of any Excise Tax on the Total Benefits and any federal, state and local income taxes, Excise Tax, and FICA and Medicare withholding taxes upon the payment provided for by this Section, will be equal to the Total Benefits.

For purposes of this Section, Executive will be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Excise Tax is (or would be) payable and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive's residence on the Date of Termination, net of the reduction in federal income taxes that could be obtained from deduction of such state and local taxes (calculated by assuming that any reduction under Section 68 of the Code in the amount of itemized deductions allowable to Executive applies first to reduce the amount of such state and local income taxes that would otherwise be deductible by Executive).

In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of Executive's employment, Executive shall repay to Company, at the time the amount of such reduction in Excise Tax is fully determined, the portion of the Gross-Up Payment attributable to such reduction (plus that portion of the Gross-Up Payment attributable to the Excise Tax, federal, state and local income taxes and FICA and Medicare withholding taxes imposed on the Gross-Up Payment being repaid by Executive to the extent that such repayment results in a reduction in Excise Tax, FICA and Medicare withholding taxes and/or a federal, state or local income tax deduction) plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event

that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of Executive's employment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), Company shall make an additional Gross-Up Payment to Executive in respect of such excess (plus any interest, penalties or additions payable by Executive with respect to such excess) at the time that the amount of such excess is finally determined.

The parties' obligations under this Section shall survive termination of this Agreement.

11. Notices .

All notices required or permitted hereunder shall be in writing and shall be deemed given and received when delivered personally, four days after being mailed if sent by registered or certified mail, postage pre-paid, or by one day after delivery if sent by air courier (for next-day delivery) with evidence of receipt thereof or by facsimile with receipt confirmed by the addressee. Such notices shall be addressed respectively:

If to the Executive , to:

John Taffin
5111 S Menaul Ct
Spokane, WA 99224

If to the Company , to:

Red Lion Hotels Corporation
201 W. North River Drive
Spokane, WA 99201
Attn: Chief Executive Officer

With copy to:

Red Lion Hotels Corporation
201 W. North River Drive
Spokane, WA 99201
Attn. Corporate Counsel

or to any other address of which such party may have given notice to the other parties in the manner specified above.

12. Miscellaneous.

(a) This Agreement is a personal contract calling for the provision of unique services by the Executive, and the Executive's rights and obligations hereunder may not be sold, transferred, assigned, pledged or hypothecated by the Executive. The rights and obligations of the Company hereunder will be binding upon and run in favor of their respective successors and assigns.

(b) This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Washington.

(c) Any controversy arising out of or relating to this Agreement or any breach hereof shall be settled by arbitration in Spokane, Washington by a single neutral arbitrator who shall be a retired federal or state court judge in accordance with the Commercial Arbitration Rules of the American Arbitration Association and judgment upon any award rendered may be entered in any court having jurisdiction thereof, except in the event of a controversy relating to any alleged violation by the Executive of Section 7 or 8 hereof, the Company and the Subsidiary shall be entitled to seek injunctive relief from a court of competent jurisdiction without the requirement to seek arbitration. In addition to all other relief, the substantially prevailing party in any arbitration or court action shall be entitled to their reasonable attorney fees and

costs incurred by reason of the controversy (including any appellate review and bankruptcy or enforcement proceedings).

(d) The headings of the various sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

(e) The provisions of this Agreement which by their terms call for performance subsequent to the expiration or termination of the Term shall survive such expiration or termination.

(f) Upon the Effective Date, this Agreement supersedes any existing employment agreements between the Employee and the Company and any of its Affiliates all of which shall be terminated upon the Commencement Date of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date first above written.

EXECUTIVE:

COMPANY:

RED LION HOTELS CORPORATION

John Taffin

By _____
Arthur Coffey, President and Chief Executive Officer

EXECUTIVE EMPLOYMENT AGREEMENT

This EXECUTIVE EMPLOYMENT AGREEMENT, is dated effective as of April 12, 2007 (“Effective Date”) by and between Red Lion Hotels Corporation, a Washington corporation (the “Company”), and Thomas L. McKeirnan (the “Executive”), and is intended to replace and supercede that certain Executive Employment Agreement between the Company and the Executive dated August 10, 2006.

The Company desires to employ the Executive in the capacities of Senior Vice President, General Counsel , and the Executive desires to be so employed, on the terms and subject to the conditions set forth in this agreement (the “Agreement”);

Now, therefore, in consideration of the mutual covenants set forth herein and other good and valuable consideration the parties hereto hereby agree as follows:

1. Employment; Term.

The Company employs the Executive, and the Executive agrees to be employed by the Company, upon the terms and subject to the conditions set forth herein, for a term commencing on the Effective Date and terminating on December 31, 2007 unless terminated earlier in accordance with Section 5 of this Agreement; provided, that such term shall automatically be extended from time to time for additional periods of one calendar year from the date on which it would otherwise expire unless the Executive, on one hand, or the Company, on the other, gives notice to the other party or parties not less than 120 days prior to such date that it elects to permit the term of this Agreement to expire without extension on such date. (The initial term of this Agreement as the same may be extended in accordance with the terms of this Agreement is hereinafter referred to as the “Term”).

2. Positions; Conduct.

(a) During the Term, the Executive will hold the title and office of, and serve in the position of, Senior Vice President, General Counsel of the Company. The Executive shall report to the Chief Executive Officer of the Company and shall perform such specific duties and services (including service as an officer, director or equivalent position of any direct or indirect subsidiary without additional compensation) as the Company shall reasonably request consistent with the Executive’s position.

(b) During the Term, the Executive agrees to devote his full business time and attention to the business and affairs of the Company and to faithfully and diligently perform, to the best of his ability, all of his duties and responsibilities hereunder. Nothing in this Agreement shall preclude the Executive from devoting reasonable time and attention to the following (the “Exempted Activities”): (i) serving, with the approval of the Chief Executive Officer of the Company, as an officer, director, trustee or member of any organization, (ii) engaging in charitable and community activities and (iii) managing his personal investments and affairs. In no event shall the Exempted Activities involve any material conflict of interest with the interests of the Company or, individually or collectively, interfere materially with the performance by the Executive of his duties and responsibilities under this Agreement.

(c) The Executive’s office and place of rendering his services under this Agreement shall be in the principal executive offices of the Company. During the Term, the Company shall provide the Executive with executive office space, and administrative and secretarial assistance and other support services consistent with his positions and with his duties and responsibilities hereunder.

3. Board of Directors; Committees.

It is understood that the right to elect directors of the Company is by law vested in the stockholders and directors of the Company, and it is mutually contemplated that service on the Board of Directors of the Company or any of its subsidiaries or on any respective committee of the Board of Directors of the Company or any of its subsidiaries is not a condition of this Agreement.

4. Salary; Additional Compensation; Perquisites and Benefits.

- (a) During the Term, the Company will pay the Executive a base salary at an annual rate of not less than \$190,000 per annum, subject to annual review by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") and in the discretion of such Committee, increased from time to time. Once increased, such base salary may not be decreased. Such salary shall be paid in periodic installments in accordance with the Company's standard practice, but not less frequently than semi-monthly.
- (b) During the Term, Executive shall be eligible to receive a cash bonus ("Bonus") as follows: Executive shall participate in such annual Bonus plans or programs as may be adopted by the Company's Compensation Committee (collectively with any of its successors in authority, the "Committee") from time to time for senior executives, provided, however, that conditioned upon attainment of target performance measure requirements based on one or more performance measures as may be determined by the Committee, the target Bonus for each calendar year during the Term for which Executive shall be eligible shall be 30% of Executive's base salary.
- (c) The Board (or the committee to which it has delegate applicable authority) in its sole discretion may award any additional or other amounts of cash, restricted stock or Options or other equity based awards in respect of any whole or partial year during the Term.
- (d) The Company will reimburse the Executive, in accordance with its standard policies from time to time in effect, for all out-of-pocket business expenses as may be incurred by the Executive in the performance of his duties under this Agreement.
- (e) The Executive shall be entitled to vacation time to be credited and taken in accordance with the Company's policy from time to time in effect for senior executives, which in any event shall not be less than a total of four weeks per calendar year.
- (f) The Company shall indemnify the Executive to the fullest extent permitted under the law of the State of Washington.

5. Termination

- (a) The Term will terminate upon the Executive's death or, upon notice by the Company or the Executive to the other, in the case of a determination of the Executive's Disability. As used herein the term "Disability" means the Executive's inability to perform his duties and responsibilities under this Agreement for a period of more than 120 consecutive days, or for more than 180 days, whether or not continuous, during any 365-day period, due to physical or mental incapacity or impairment. A determination of Disability will be made by a physician satisfactory to both the Executive and the Company; provided that if they cannot agree as to a physician, then each shall select a physician and these two together shall select a third physician whose determination of Disability shall be binding on the Executive and the Company. Should the Executive become incapacitated, his employment shall continue and all base and other compensation due the Executive hereunder shall continue to be paid through the date upon which the Executive's employment is terminated for Disability in accordance with this section.

(b) The Term may be terminated by the Company upon notice to the Executive upon the occurrence of any event constituting "Cause" as defined herein.

(c) The Term may be terminated by the Executive upon notice to the Company within six months of the occurrence of any event constituting "Good Reason" as defined herein.

6. Severance.

(a) If the Term is terminated by the Company for Cause, the Company will pay to the Executive an aggregate amount equal to the Executive's accrued and unpaid base salary through the date of such termination, additional salary payments in lieu of the Executive's accrued and unused vacation time, unreimbursed business expenses, unreimbursed medical, dental and other employee benefit expenses in accordance with the applicable plans, and any and all other benefits provided under the terms of applicable employee plans to terminated employees (the "Standard Termination Payments").

(b) If the Term is terminated upon the Executive's death or Disability, the Company and the Subsidiary will pay to the Executive's estate or the Executive, as the case may be, (i) the Standard Termination Payments, (ii) a lump sum payment, if applicable, equal to the Executive's earned but unpaid bonus under the Company's Executive Officers Variable Pay Plan dated effective January 1, 2005 (including any successor or replacement bonus plans, the "VPP"), for the prior fiscal year, (iii) a lump sum payment equal to the Executive's target bonus under the VPP for the fiscal year in which the death or Disability occurs prorated for the portion of the year elapsed at the time of the termination, and (iv) all death or disability payments or other employee benefits under their employee benefit plans.

(c) If the Company terminates the Executive's employment under this Agreement without Cause other than by reason of his death or Disability or if the Executive terminates his employment hereunder for Good Reason, the Company shall (i) pay the Executive the Standard Termination Payments, (ii) pay the Executive a lump sum payment equal to the Executive's earned but unpaid bonus under the VPP for the previous fiscal year, if applicable, and (iii) pay the Executive a lump sum payment equal to the Executive's target bonus under the VPP for the fiscal year in which the termination occurs prorated for the portion of the year elapsed at the time of the termination, (iv) pay the Executive a lump sum payment equal to the Executive's total cash compensation for the previous fiscal year (but not less than \$190,000), and (v) continue in effect the Executive's benefits with respect to life, health and insurance plans or their equivalent for one year. Such payments and the obligations set forth below in Section 6(e) shall be the Company's only obligations to Executive in such a case. The Company shall incur no further liability for such a termination.

(d) If the Term is not extended pursuant to the proviso to Section 1 as a result of the Company giving notice thereunder that it elects to permit the term of this Agreement to expire without extension, the Company shall (i) pay the Executive the Standard Termination Payments, (ii) pay the Executive a lump sum payment equal to the Executive's earned but unpaid bonus under the VPP for the previous fiscal year, if applicable, (iii) pay the Executive a lump sum payment equal to the Executive's target bonus under the VPP for the fiscal year in which the termination occurs prorated for the portion of the year elapsed at the time of the termination, (iv) pay the Executive a lump sum payment equal to the Executive's total cash compensation for the previous fiscal year (but not less than \$190,000), and (v) continue in effect the Executive's benefits with respect to life, health and insurance plans or their equivalent for one year. Such payments and the obligations set forth below in Section 6 (e) shall be the Company's only obligations to Executive in such a case. The Company shall incur no further liability for such a termination.

(e) If the Company terminates the Executive's employment under this Agreement without Cause other than by reason of his death or Disability, or if the Term is not extended as a result of the Company giving notice that it elects to permit the term of this Agreement to expire without extension, or if there is a Change of Control, or if the Executive terminates his employment hereunder for Good Reason pursuant to Section 5 (c): all stock options granted to the Executive shall immediately vest and be exercisable and any stock grant to the Executive shall immediately vest, all Company imposed restrictions on restricted stock

issued to the Executive shall be terminated and all restricted stock awarded to Executive but not yet issued shall be promptly issued to Executive.

(f) As used herein, the term “Cause” means: (i) the Executive’s willful and intentional failure or refusal to perform or observe any of his material duties, responsibilities or obligations set forth in this Agreement, if such breach is not cured within 30 days after notice thereof to the Executive by the Company, which notice shall state that such conduct shall, without cure, constitute Cause and makes specific reference to this Section 6(f); (ii) any willful and intentional act of the Executive involving fraud, theft, embezzlement or dishonesty affecting the Company; or (iii) the Executive’s conviction of (or a plea of nolo contendere to) an offense which is a felony in the jurisdiction involved.

(g) As used herein, the term “Good Reason” means the occurrence of any of the following, without the prior written consent of the Executive: (i) assignment to the Executive of duties materially inconsistent with the Executive’s positions and responsibilities as described in Section 2(a) hereof; (ii) the removal of the Executive from the position as described in Section 2(a); (iii) any material breach of this Agreement by the Company which is continuing; or (iv) a Change of Control; provided that a Change of Control shall only constitute Good Reason if, within 18 months after such Change of Control: (a) the Company changes its headquarters office location to a location more than 40 miles from the city limits of Spokane, Washington, (b) the Company changes Executive’s job titles, or (c) Executive experiences a significant diminution in his duties or responsibilities or compensation compared to prior to the Change of Control, other than in connection with the termination of the Executive’s employment for Cause, Disability or as a result of the Executive’s death or by the Executive other than for Good Reason. Notwithstanding anything to the contrary in this Section 6(g), the Executive shall not be deemed to have Good Reason unless the Executive gives the Company written notice that the specified conduct or event has occurred giving rise to Executive having Good Reason, and the Company fails to cure such conduct or event within thirty (30) days after the receipt of such notice.

(h) As used herein, the term “Change of Control” means the occurrence of any one of the following events: (i) the majority of the Board of Directors of the Company consists of individuals other than Incumbent Members, which shall mean the members of the Company’s Board of Directors on the Effective Date; provided that any person becoming a director subsequent to the Effective Date whose election or nomination for election was supported by the Executive or a majority of the directors who then comprised the Incumbent Directors shall be considered an Incumbent Director; (ii) the Company adopts a plan of liquidation providing for the distribution of all or substantially all of the assets of the Company on a consolidated basis; or (iii) the Company sells all or substantially all of its assets on a consolidated basis in a single transaction or series of transactions. As used herein, an Affiliate of a person or other entity means a person or other entity that directly or indirectly controls, is controlled by or is under common control with the person or other entity specified (including without limitation any investment entity managed by the person or other entity specified or a person or entity that directly or indirectly controls, is controlled by or under common control with the person or other entity specified).

(i) The amounts required to be paid and the benefits required to be made available to the Executive under this Section 6 are absolute. Under no circumstances shall the Executive, upon the termination of his employment hereunder, be required to seek alternative employment and, in the event that the Executive does secure other employment, no compensation or other benefits received in respect of such employment shall be set-off or in any other way limit or reduce the obligations of the Company and the Subsidiary under this Section 6.

7. Confidential Information.

(a) The Executive acknowledges that the Company and its Affiliates own and have developed and compile, and will in the future own, develop and compile certain Confidential Information and that during the course of his rendering services to the Company Confidential Information has and will be disclosed to the Executive by the Company and its Affiliates. The Executive hereby agrees that, during the Term (except as required to conduct the business of the Company) and thereafter, he will not in any way use or disclose, furnish or make accessible to anyone, directly or indirectly, any Confidential Information of the Company or its Affiliates.

(b) As used herein, the term “Confidential Information” means any trade secrets, confidential or proprietary information, or other knowledge, know-how, information, documents or materials, owned, developed or possessed by a Company Affiliate pertaining to its businesses the confidentiality of which such company takes reasonable measures to protect, including, but not limited to, trade secrets, techniques, know-how (including designs, plans, procedures, processes and research records), software, computer programs, innovations, discoveries, improvements, research, developments, test results, reports, specifications, data, formats, marketing data and business plans and strategies, business opportunities, guest lists, vendor terms, agreements and other forms of documents, expansion plans, budgets, projections, and salary, staffing and employment information. Notwithstanding the foregoing, Confidential Information shall not in any event include information which (i) was generally known or generally available to the public prior to its disclosure to the Executive, (ii) becomes generally known or generally available to the public subsequent to its disclosure to the Executive through no wrongful act of the Executive, (iii) is or becomes available to the Executive from sources other than the Company Affiliates which sources are not known to the Executive to be under any duty of confidentiality with respect thereto or (iv) the Executive is required to disclose by applicable law or regulation or by order of any court or federal, state or local regulatory or administrative body (provided that the Executive provides the Company with prior notice of the contemplated disclosure and reasonably cooperates with the Company, at the Company’s sole expense, in seeking a protective order or other appropriate protection of such information).

8. Restrictive Covenants.

(a) The Executive agrees that during his employment hereunder and for a period of twelve months thereafter the Executive will not, directly or indirectly, engage or participate or make any financial investments in (other than ownership of up to 5% of the aggregate of any class of securities of any corporation if such securities are listed on a national stock exchange or under section 12(g) of the Securities Exchange Act of 1934) or become employed by, or act as an agent or principal of, or render advisory or other management services to or for, any Competing Business. As used herein the term “Competing Business” means any business which includes hotel ownership, hotel management, hotel services or hotel franchising and has a headquarters in Washington, Oregon, Idaho, Montana, Utah or Northern California, defined as the area from San Jose, California north to California’s border with Oregon.

(b) The Executive agrees that during his employment hereunder and for a period of twenty-four months thereafter he will not solicit, raid, entice or induce any person that then is or at any time during the twelve-month period prior to the end of the Term was an employee of the Company or a Company Affiliate (other than a person whose employment with such Company Affiliate has been terminated by such Company Affiliate), to become employed by any person, firm or corporation.

9. Specific Performance.

(a) The Executive acknowledges that the services to be rendered by him hereunder are of a special, unique, extraordinary and personal character and that the Company Affiliates would sustain irreparable harm in the event of a violation by the Executive of Section 7 or 8 hereof. Therefore, in addition to any other remedies available, the Company shall be entitled to specific enforcement and/or an injunction from any court of competent jurisdiction restraining the Executive from committing or continuing any such violation of this Agreement without proving actual damages or posting a bond or other security. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of damages.

(b) If any of the restrictions on activities of the Executive contained in Sections 7 or 8 shall for any reason be held by a court of competent jurisdiction to be excessively broad as to duration, geographical scope or activity of subject, such restrictions shall be construed so as thereafter to be limited or reduced to be enforceable to the maximum extent compatible with the applicable law as it shall then appear; it being

understood that by the execution of this Agreement the parties hereto regard such restrictions as reasonable and compatible with their respective rights.

(c) Notwithstanding anything in this Agreement to the contrary, in the event that the Company fails to make any payment of any amounts or provide any of the benefits to the Executive when due as called for under Section 6 of this Agreement and such failure shall continue for twenty (20) days after notice thereof from the Executive, all restrictions on the activities of the Executive under Sections 7 and 8 shall be immediately and permanently terminated.

10. Withholding; Additional Payments.

(a) The parties agree that all payments to be made to the Executive by the Company pursuant to the Agreement shall be subject to all applicable withholding obligations of such company.

(b) The parties intend that the severance payments and other compensation provided for herein are reasonable compensation for Executive's services to Company and shall not constitute "excess parachute payments" within the meaning of Section 280G(b)(1) of the Internal Revenue Code of 1986, as amended (the "Code"). In the event the parties determine that the severance benefits or any other benefits or payments to which Executive is entitled pursuant to this Agreement or otherwise (collectively, the "Total Benefits"), will be subject to the excise tax imposed pursuant to Section 4999 of the Code ("Excise Tax"), Company shall pay to Executive an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive, after deduction of any Excise Tax on the Total Benefits and any federal, state and local income taxes, Excise Tax, and FICA and Medicare withholding taxes upon the payment provided for by this Section, will be equal to the Total Benefits.

For purposes of this Section, Executive will be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Excise Tax is (or would be) payable and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive's residence on the Date of Termination, net of the reduction in federal income taxes that could be obtained from deduction of such state and local taxes (calculated by assuming that any reduction under Section 68 of the Code in the amount of itemized deductions allowable to Executive applies first to reduce the amount of such state and local income taxes that would otherwise be deductible by Executive).

In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of Executive's employment, Executive shall repay to Company, at the time the amount of such reduction in Excise Tax is fully determined, the portion of the Gross-Up Payment attributable to such reduction (plus that portion of the Gross-Up Payment attributable to the Excise Tax, federal, state and local income taxes and FICA and Medicare withholding taxes imposed on the Gross-Up Payment being repaid by Executive to the extent that such repayment results in a reduction in Excise Tax, FICA and Medicare withholding taxes and/or a federal, state or local income tax deduction) plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of Executive's employment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), Company shall make an additional Gross-Up Payment to Executive in respect of such excess (plus any interest, penalties or additions payable by Executive with respect to such excess) at the time that the amount of such excess is finally determined.

The parties' obligations under this Section shall survive termination of this Agreement.

11. Notices .

All notices required or permitted hereunder shall be in writing and shall be deemed given and received when delivered personally, four days after being mailed if sent by registered or certified mail, postage pre-paid, or by one day after delivery if sent by air courier (for next-day delivery) with evidence of

receipt thereof or by facsimile with receipt confirmed by the addressee. Such notices shall be addressed respectively:

If to the Executive , to:

Thomas L. McKeirnan
235 E 9th
Spokane, WA 99202

If to the Company , to:

Red Lion Hotels Corporation
201 W. North River Drive
Spokane, WA 99201
Attn: Chief Executive Officer

or to any other address of which such party may have given notice to the other parties in the manner specified above.

12. Miscellaneous.

- (a) This Agreement is a personal contract calling for the provision of unique services by the Executive, and the Executive's rights and obligations hereunder may not be sold, transferred, assigned, pledged or hypothecated by the Executive. The rights and obligations of the Company hereunder will be binding upon and run in favor of their respective successors and assigns.
- (b) This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Washington.
- (c) Any controversy arising out of or relating to this Agreement or any breach hereof shall be settled by arbitration in Spokane, Washington by a single neutral arbitrator who shall be a retired federal or state court judge in accordance with the Commercial Arbitration Rules of the American Arbitration Association and judgment upon any award rendered may be entered in any court having jurisdiction thereof, except in the event of a controversy relating to any alleged violation by the Executive of Section 7 or 8 hereof, the Company and the Subsidiary shall be entitled to seek injunctive relief from a court of competent jurisdiction without the requirement to seek arbitration. In addition to all other relief, the substantially prevailing party in any arbitration or court action shall be entitled to their reasonable attorney fees and costs incurred by reason of the controversy (including any appellate review and bankruptcy or enforcement proceedings).
- (d) The headings of the various sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.
- (e) The provisions of this Agreement which by their terms call for performance subsequent to the expiration or termination of the Term shall survive such expiration or termination.
- (f) Upon the Effective Date, this Agreement supersedes any existing employment agreements between

the Employee and the Company and any of its Affiliates all of which shall be terminated upon the Commencement Date of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date first above written.

EXECUTIVE:

COMPANY:

RED LION HOTELS CORPORATION

Thomas L. McKeirnan

By _____
Arthur Coffey, President and
Chief Executive Officer

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:
 - a) 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
 - b) 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: May 9, 2007

/s/Arthur M. Coffey

Arthur M. Coffey
President and Chief Executive Officer

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:
 - a) 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
 - b) 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: May 9, 2007

/s/ Anupam Narayan

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

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 March 31, 2007, 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.

May 9, 2007

/s/ Arthur M. Coffey

Arthur M. Coffey
President and Chief Executive Officer

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 March 31, 2007, 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.

May 9, 2007

/s/ Anupam Narayan

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