Portal & Vicente

Monday, November 29, 2010

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Recommendation:

SELL

Red Lion Hotels Corp. (NYSE: RLH)

Closing Price (11/26/10)	$7.80
Target Price	$5.61
52 week Low	$4.31
52 week High	$8.24
Shares Outstanding	18.52M
Market Cap	$144.41M
ROE	-5.15%
EPS	-0.54
Beta	1.69

Source: MSN money, Google Finance, Company Data

Red Lion Hotels Corporation

New hotel directors do not change fundamentals

Highlights

1. **Heavy dependence on third-party lending and uncertainty to secure future loans threatens RLH's survival**
2. **Expected growth for the next 10 years to be in line with Real GDP growth, at most**
3. **Management projections cannot be trusted, as it has proven to be consistently unreliable (e.g. objectives set for the past five years have not been met)**
4. **1% of current revenue stream (franchises) cannot lead to the turnaround of the business**
5. **Potential M&A target**

Source: Google Finance

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Table of Contents

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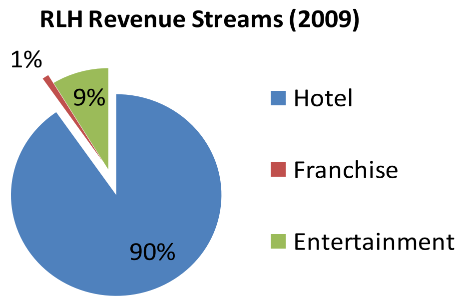
Company Overview



Red Lion Hotels Corporation (NYSE:RLH) is a Washington State based company that owns, operates, and franchises midscale and upscale hotels under the Red Lion brand. The company owns 45 hotels that cater to the needs of leisure and business travelers in both urban and smaller markets. Its business model generates revenues from three main segments: the hotel segment (19 of which are owned and 13 are leased) that in 2009 generated 90.3% of all revenues; the franchise segment (13 hotels) which generated royalties and fees that in 2009 accounted for 1% of all revenues; and the entertainment and others segment, which primarily generates revenues through ticketing services and promotion and presentation of entertainment productions, that in 2009 contributed to 8.7% of the total revenues.[1]

Strategy

RLH's strategy is to grow hotel revenues and to expand their base of franchised properties, while keeping cost-cutting policies in place.[2] In 2008, the company implemented significant cost controls throughout the organization, which resulted in a reduction of $14.2M in operating expenses in 2009, compared to an increase of $11.3M from 2007 to 2008. Management has identified franchising as their "key growth engine", and has since placed its efforts into expanding this segment in a controlled and disciplined way.

Risks

1. Demand for hotel rooms is mainly affected by macroeconomic conditions, such as unemployment, low family income, and lower consumer spending. Thus, it is not surprising that the economic downturn has had a negative effect on RLH's results: total revenues in 2009 decreased by $22M; RevPAR decreased 12.1% (mainly due to a 380 basis point decrease in occupancy from the prior year); revenue from franchises decreased 4.9%.
2. The company has incurred in excessive indebtedness, secured by mortgages on its owned hotels. If RLH is unable to meet its obligations, it risks losing some of its assets. Adverse economic conditions could result in RLH needing capital to repay debt, for which the company might need to sell some of its properties at unattractive prices due to the current hotel property oversupply. Adverse conditions could also result in difficulty to secure further borrowing, or in higher interest rates. Furthermore, failure to comply with debt covenants will adversely affect RLH's ability to obtain future financing.
3. The industry is highly competitive and RLH might not able to compete successfully. RLH competes against internationally renowned hoteliers, such as Marriott, Wyndham, and Starwood, and against domestic and local hotels. RLH's ability to compete will depend on its capacity to offer a better cost/value ratio to customers than what the competitors are able to offer.

[1] Company SEC 2009 10-K annual filing
[2] *Ibid*

4. Volatility in the financial and credit markets impact RLH's fair value measurement. In 2009, assets with a book value of $28.4M were written down to $19.7M, with a resulting non-cash impairment loss of $8.7M. Changes like this in the valuation of long-lived assets affect the company's financial condition while illustrating a lower demand for hotel properties than in the past.
5. RLH's properties are too concentrated in the Northwest region of the U.S. (see figure 1), which could affect negatively the company if adverse events, such as natural disasters, hit the zone.

Executive Management

The company has seen major changes in the senior managers that run the business. These changes have had a big financial impact on RLH. Overall, the market has reacted very positively to all these changes, an indicator that the former management was not very well regarded.

- February 2008, the President and CEO retired. His retirement packaged accounted for $3.7M in separation payments. The company appointed Mr. Jon E. Eliassen, a director since 2003, as new President and CEO in January 2010.[3] The market had a positive reaction after the announcement and in less than a week the stock price went from $4.85 to $5.75 (+18.56%).
- October of 2008, the company terminated the employment agreement with its Executive Vice President for Operations, which resulted in an expense of nearly $1M in separation payments. The position was covered in 2009 by Mr. George H. Schweitzer, a former Senior Vice President since 2008.[4] There was no reaction from the market.
- September 2010, the company's CFO decided to leave the company. His position was filled by Mr. Dan Jackson, who was previously the CFO and EVP of KinderCare Learning Centers, Inc.[5] The market reacted positively, with an immediate stock price increase of $0.10.
- September 2010, the previously vacant position of Corporate Controller is covered by Sandi Heffernan, former Senior Director at NightHawk Radiology Holdings, Inc. Once again, the market reacted very positively, with an immediate stock price increase from $7.20 to $7.97 (+10.69%).

Table 1 RLH's Executive Officers

Name	Age	Position
Donald K. Barbieri	64	Chairman of the Board
Richard L. Barbieri	67	Director
Ryland P. "Skip" Davis	69	Director
Peter F. Stanton	53	Director
Ronald R. Taylor	62	Director
Raymond R. Brandstrom	57	Director
Jon E. Eliassen	63	President, Chief Executive Officer and Director
George H. Schweitzer	54	Executive Vice President and Chief Operating Officer,
Thomas L. McKeirnan	41	Senior Vice President, General Counsel and Secretary

Source: Company SEC 10-K 2009 filing

[3] *Ibid*
[4] *Ibid*
[5] Hospitality Industry, *Red Lion Hotels Corporation Hires Dan Jackson as CFO*, November 2, 2010, http://www.hospitality-industry.com/index.php/news/comments/red_lion_hotels_corporation_hires_dan_jackson_as_cfo/, accessed 11/21/2010

Geographical Location & Expansion Plans

RLH operates 45 hotels in eight states, all of them located in the Northwest region of the United States. Of these, 35 are located in Oregon, Washington, Idaho and Montana. RLH's hotels are focused in serving a limited number of major local industries, such as agriculture, tourism, technology, and timber.[6]

Figure 1 Geographical footprint of RLH indicating the number of properties per state

Source: Company Investor Presentation, May 2010

Figure 2 below, show the expansion plans for owned hotels for the next two years announced in 2008. Six new hotels in three new states, plus two more new hotels in Canada were projected to be added to RLH's directory by 2009.

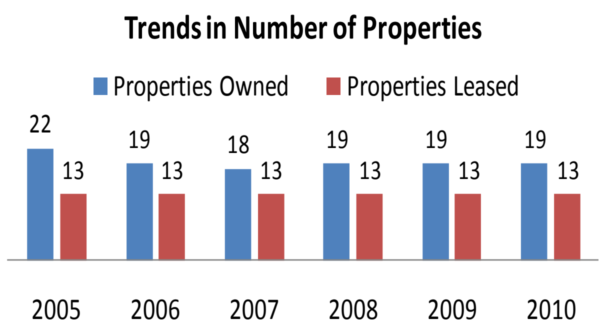
Figure 2

Source: RLH 2008 Growth Strategy, Investor Presentation January 2008

[6] Please see Figure 20 in the Appendix for a more detailed discussion on GDP growth trends per state

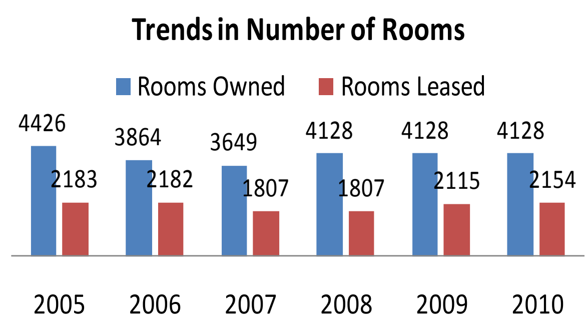
To date, however, none of these were added. Moreover, in 2010 there were no plans to further expand the current number of owned hotels. Given these circumstances, we do not foresee RLH to open or lease more hotels in the mid-term. Figures 3 and 4 below show the trends in the total number of properties and rooms operated by the company.

Figure 3



Source: Company SEC 10-K 2009 filing

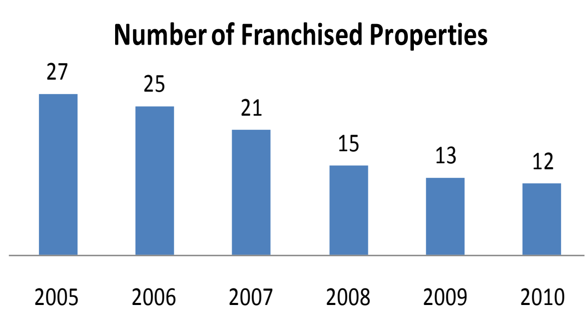
Figure 4



Source: Company SEC 10-K 2009 filing

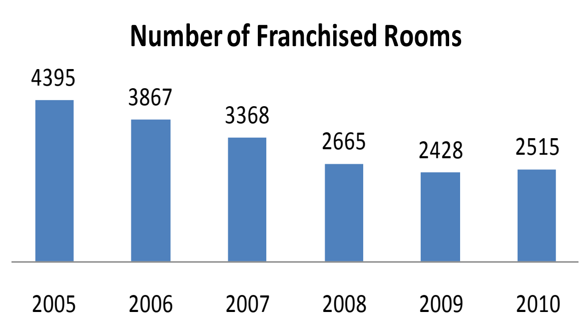
As it can be seen, the number of owned and leased properties has remained stable in the past five years. Nevertheless, it is part of RLH's vision to increase the number of franchised hotels, albeit, within the same region. As of date, there are no plans to expand the franchise system either internationally or outside the states where the company already operates. The Red Lion brand is considered to be well recognized within its area of influence, so attracting local investors interested in becoming franchisees of RLH is considered by management to be relatively easy. Management has been announcing since 2007 a "disciplined" growth strategy that targets "selected hotel conversions"[7] into the company's franchise system, although no specific growth target or guideline has been set yet. However, far from converting targeted hotels into RLH franchises, we have observed that since the past five years there has been a decline in the total number of franchised properties and in the total number of rooms operated in these franchises (with the exception of 2010 where a small increase of 3% in the total number of rooms in the franchises was observed). Figures 5 and 6 below show these trends.

Figure 5



Source: Company SEC 10-K 2009 filing

Figure 6



Source: Company SEC 10-K 2009 filing

Based on management's continuous focus on growing this segment, and on historic segment growth and overall franchise market trends, we projected that the company's franchise sector will grow at a rate of 5% in the next ten years (twice the expected GDP growth, a very optimistic growth rate used in

7 RLH Investors Presentation 2010

the valuation). In reality, however, we expect this growth to be more likely between 0.27% and 4.6% (the expected franchise growth rates observed in the small and large peer groups, respectively).

Management Guidelines

At the beginning of every year, RLH management releases a set of objectives that the company will use as guidelines for the current year. These guidelines include market expectations, areas of expansion opportunities, and specific targets to be reached, in particular, targets for EBITDA, Operation Margin and RevPAR. Below is RLH's scorecard. It evaluates RLH's management ability to reach the targets set. Green represents a target reached; red represents a target not reached.

Table 2

	2007	Actual	2008	Actual	2009	Actual	2010	Estimated
EBITDA	33M	$34,594	[29M,32M]	$25,657	[28M,34M]	$18,747	[28M,30M]	$24,708
Op. Margin	22%	8%	[5.4%,8%]	2.6%	[0.6%,2.6%]	-1.9%	[-1.9%,0.9%]	2.3%
RevPAR	[11%,12%]	9.10%	[0%,-2%]	-1.20%	[-8%,-12%]	-12.1%	[-1%,2%]	2.4%

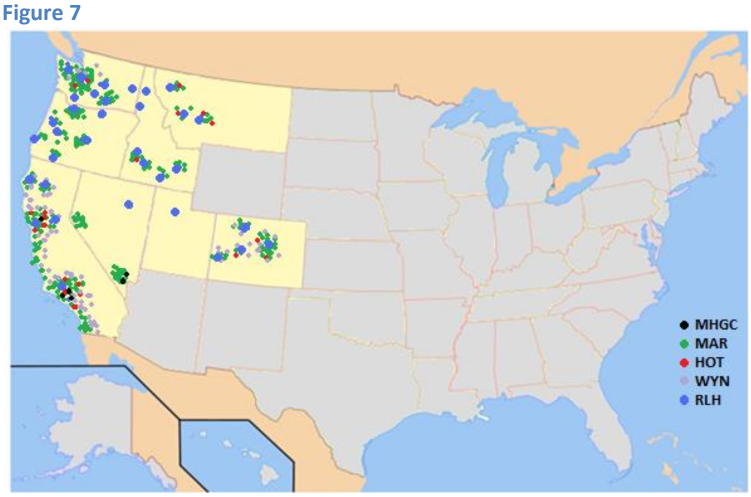
Source: Company Investor Presentations 2007, 2008, 2010

As can be seen, on average RLH's management does not meet set objectives. This lack of "hitting" its own guidance together with the above discussion on the projected growth vs. actual growth in owned, leased, and franchised properties, makes us strongly doubt on the reliability of company's projections.

Competitive Environment

The hospitality industry has been traditionally characterized by an aggressive competitive environment, and the West and Pacific West areas of the US are no exceptions to this, as is evidenced by figure 7 below.

Figure 7



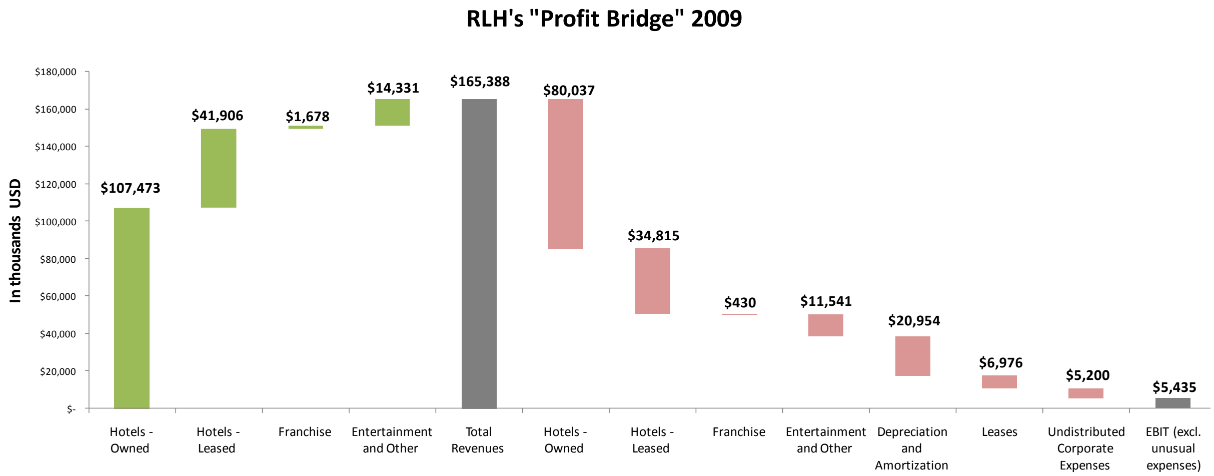
Source: Companies websites

RLH's primary markets are the cities of Seattle, Spokane, Portland, Denver, and Salt Lake City, and its main competitors for this market are Crowne Plaza, Four Points, Doubletree, and Radisson. The company's secondary markets are Idaho Falls (ID), Helena (MT), Coos Bay (OR), Yakima (WA), and Redding (CA). In this market, the company competes against giant hoteliers like Hilton Garden Inn, Marriott Courtyard, and Holiday Inn.

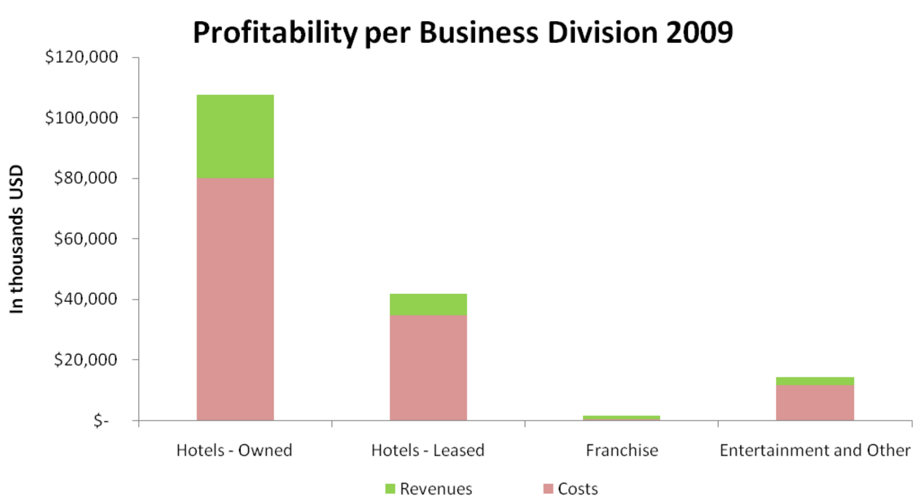
Sources of Revenue and Costs

Figures 8 below graphically depicts the relationship of the company's revenues and costs. As can be seen, RLH mainly derives its profits from the operation of its owned and leased hotels. The franchise and entertainment segments, despite being profitable, have a very small contribution to the bottom line of the company.

Figures 8



Source: Company SEC 10-K 2009 filing



Source: Company SEC 10-K 2009 filing

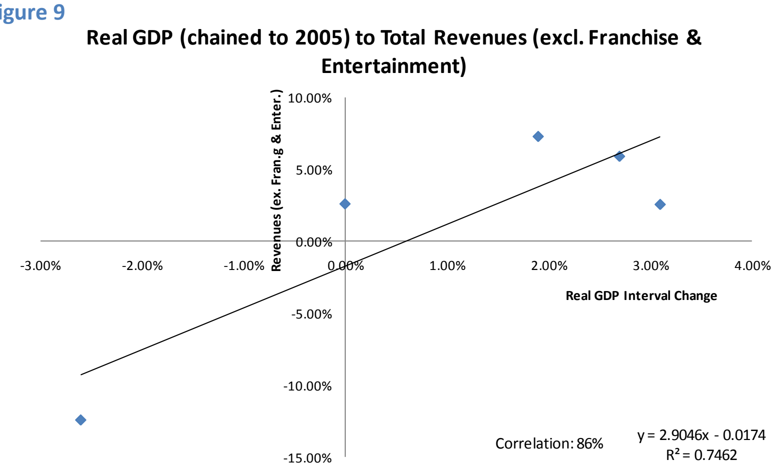
Drivers

To project RLH's growth in revenues for the period 2011 – 2020, two different analyses were prepared as follows.

1. Changes in Real GDP

Historically, the hospitality industry has been linked to changes in macroeconomic conditions (e.g. low unemployment, high family income, and high business investment increase the demand for hotel rooms and related lodging services). To analyze the effect on RLH, we used correlation and regression analysis to determine the relationship between the RLH's total revenues (excluding franchise and entertainment segments) and the growth in real GDP. A strong correlation between these two variables (86%) was found, and our regression model obtained a representativeness of 75%. Based upon these results, we selected real GDP as a forecast variable to project the growth for RLH.

Figure 9



Source: BEA and Company SEC 2003 to 2009 10-K annual filings

2. Peer Group Analysis

In a comparative approach, we analyzed RLH's industry peers to understand how comparable firms have evolved in the last five years. To get a better understanding of the hospitality industry, we defined two different peer groups for RLH: a "small cap" group, that includes firms such as Gaylord Entertainment Company (NYSE:GET), Morgan Hotel Group (NASDAQ:MHGC), and Sonesta International Hotels (NASDAQ:SNSTA), and a "large cap" group, that includes giant hoteliers such as Marriott (NYSE:MAR), Wyndham (NYSE:WYN), and Starwood (NYSE:HOT). Tables 3 and 4 below show the historic CAGR computed for the peer groups. The groups were formed by selecting firms similar to RLH in terms of operations, business model and size. Tables 16 and 17 in the appendix show the comparable multiples for all companies.

Table 3 Small Cap Peer Group's Historic Revenues

Small Cap Group	*in thousands*	2005	2006	2007	2008	2009	2010	CAGR
RLH	Total Revenue	163,053	170,368	186,893	187,570	165,388	157,669	-0.56%
GET	Total Revenue	644,536	722,272	747,723	930,869	879,121	776,412	3.15%
MHGC	Total Revenue	260,349	247,049	322,985	314,467	232,645	220,368	-2.74%
SNSTA	Total Revenue	102,668	98,832	86,685	80,517	64,819	77,344	-4.61%
Small Cap Group	Total Revenue	1,170,606	1,238,521	1,344,286	1,513,423	1,341,973	1,231,793	0.85%

Source: Companies Annual Reports

Below is a short description of each peer company

GET	Gaylord Entertainment Company is engaged in the business of hospitality. The Company's operations are organized into three principal business segments: Hospitality, which includes its hotel operations; Opry and Attractions,and Corporate and Other. The Company's Hospitality, and Opry and Attractions business segments represented approximately 92.6% and 7.4% respectively, of total revenues for the year ended December 31, 2009.
MHGC	Morgans Hotel Group Co. is a fully integrated hospitality company that operates, owns, acquires, develops and redevelops boutique hotels primarily in gateway cities and select resort markets in the United States, Europe and in select international locations. At December 31, 2009, the Company owned or partially owned, and managed a portfolio of 13 luxury hotel properties, comprising approximately 4,700 rooms.
SNSTA	Sonesta International Hotels Corporation is engaged in the operation of hotels that it owns in, Massachusetts, and leases in Louisiana. It also operates hotels in Florida, Egypt (including six Nile River cruise vessels) and Costa Rica. The Company also has franchise agreements for hotels in St. Maarten, Brazil, Chile, Colombia and Peru. The Company launched a domestic franchise program during the year ended December 31, 2009. The Company's hotels are metropolitan and resort hotels in vacation areas. The Company operates the Royal Sonesta Hotel, in New Orleans, Louisiana under a long-term lease.

Source: Google Finance

The figure 10 below shows that YTD the company has been consistently following industry trends and that is has had an average past performance in the stock market, relative to peers similar in size.

Figure 10

Source: Google Finance

Table 4 Large Cap Peer Group's Historic Revenues

Large Cap Group	*in thousands*	2005	2006	2007	2008	2009	2010	CAGR
MAR	Total Revenue	11,129,000	11,995,000	12,990,000	12,879,000	10,908,000	11,550,000	0.62%
								CAGR
HOT	Total Revenue	5,860,000	5,840,000	5,999,000	5,754,000	4,756,000	4,990,000	1.00%
								CAGR
WYN	Total Revenue	3,471,000	3,842,000	4,360,000	4,281,000	3,750,000	3,950,000	2.18%
Large Cap Group	Total Revenue	20,460,000	21,677,000	23,349,000	22,914,000	19,414,000	20,490,000	0.02%

Source: Companies Annual Reports

MAR	Marriott International, Inc. is a worldwide operator and franchisor of hotels and related lodging facilities. The Company develops, operates and franchises hotels and corporate housing properties under separate brand names, and it develops, operates and markets timeshare, fractional ownership and residential properties under four separate brand names. The Company also provides services to home/condominium owner associations for projects associated with one of its brands.
HOT	Starwood Hotels & Resorts Worldwide, Inc. is a hotel and leisure company. The Company conducts its hotel and leisure business both directly and through its subsidiaries. It is organized into two business segments: hotels and vacation ownership and residential.
WYN	Wyndham Worldwide Corporation is a hospitality company, which operates in three segments: Lodging, Vacation Exchange and Rentals and Vacation Ownership. Lodging franchises hotels in the upscale, midscale, economy and extended stay segments of the lodging industry and provides hotel management services for full-service hotels globally. Vacation Exchange and Rentals provides vacation exchange products and services to owners of intervals of vacation ownership interests (VOIs) and markets vacation rental properties primarily on behalf of independent owners. Vacation Ownership develops, markets and sells VOIs to individual consumers, provides consumer financing in connection with the sale of VOIs and provides property management services at resorts.

Source: Google Finance

Figures 11 and 12 below show the projected growth for both peer groups. As it can be seen, the expected growth for the overall industry fluctuates between remaining flat and moderately increasing 1% at best.

Figure 11

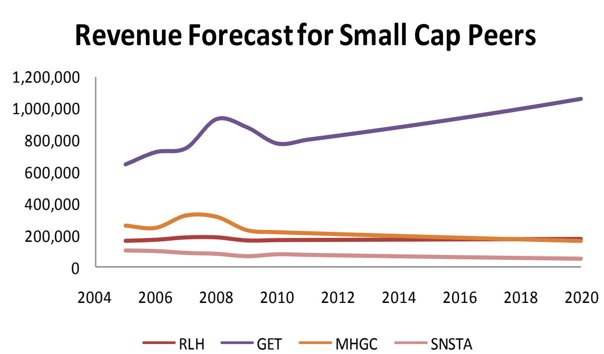


Figure 12

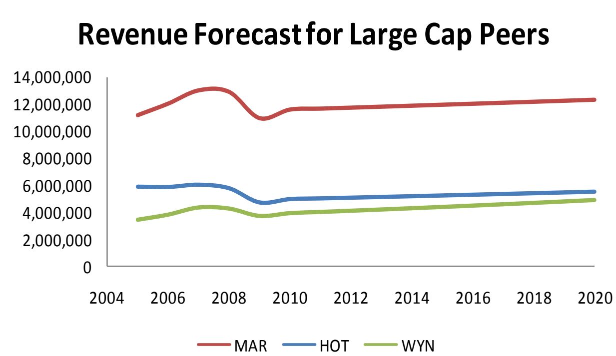
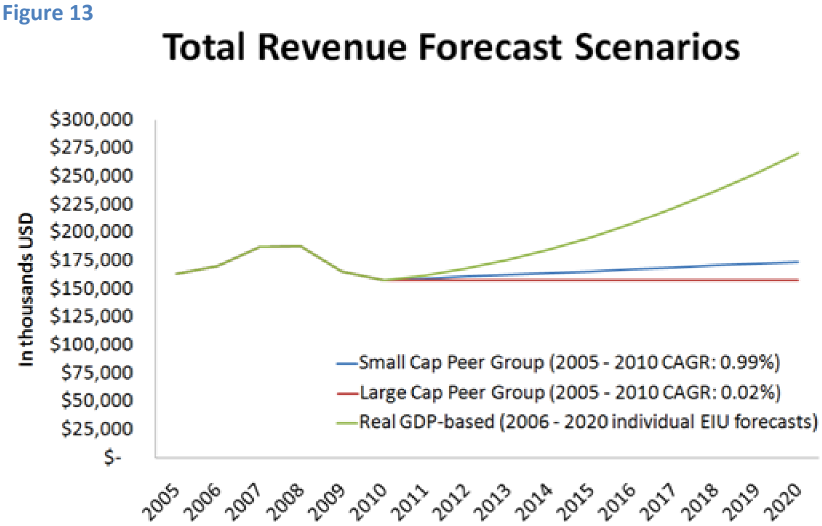


Figure 13 below contrasts the three possible projections for RLH's total revenues derived from the above analysis. Given the strong relationship between real GDP and RLH's historical performance, we decided to choose this variable as the main growth driver for RLH and obtain the most optimistic valuation scenario possible. Later in in the report, a sensitivity analysis that shows the impact that different growth rates have on RLH's valuation, can be found.

Figure 13



Source: RHL's SEC 2005 to 2009 10-K annual filings, EIU, and small and large cap peer groups' SEC 2005 to 2009 10-K annual filings

Valuation

Real GDP Projections 2010 – 2020**:** To estimate the growth Real GDP for the coming ten years, several different sources were consulted to get a sense of where the economy is heading at. The most relevant sources found were:[8]

1. The *Congressional Budget Office*. In a communication from the CBO's Director, Douglas W. Elmendorf, dated September 28, 2001, the office acknowledged several mistakes in its 2020 GDP forecast, and recognized that its projections should be revised to a slower rate. Given this fact, we chose not to use the CBO published numbers.
2. The *Federal Reserve Bank of Philadelphia* offers projections of Real GDP growth based on the opinion of professional forecasters. Studies on the accuracy of the Survey of Professional Forecasters (SPF) exist, and it has been found that the SPF's projections generally outperform other projections for the very short-term (i.e. one quarter). The SPF's accuracy, however, falls sharply at quarterly horizons beyond the first.[9] On average, our analysis found that this source's forecasts are 58 basis points off from actual GDP growth.
3. The Economist, through its *Economist Intelligence Unit (EIU)*, offers on its webpage Real GDP projections for the period 2010-2020. On average, these forecasts have been 35 basis points off the actual GDP growth.

The results of our analyses on GDP accuracy can be found in the Appendix. Table 14 shows the recorded accuracy for the Federal Reserve Bank of Philadelphia and the EIU. Since the EIU outperforms the Philadelphia Fed, we chose to use these numbers as our estimators.

[8] Portal & Vicente, Choice Hotels International, Inc.: Keep your luggage in the closet, September 22, 2010, Yale SOM

[9] Stark, Tom. Realistic Evaluation of Real-Time Forecasts in the Survey of Professional Forecasters, Federal Reserve Bank of Philadelphia, May 28, 2010

Total Revenues: RLH generates revenues through its Hotel (owned and leased properties), Franchise, and Entertainment and Other segments. An analysis of RLH's revenue sources illustrates that the CAGR has declined by 0.56%, while Hotels (leased) and Entertainment and Other segments have primarily contributed to this trend with CAGRs of -3.59% and -2.46% respectively. Hotels (owned) and Franchise, however, have shown moderate growth with CAGRs of 1.01% and 0.20% respectively. The subsequent section will offer further insights into the assumptions that were used in valuing RLH's future revenue streams.

Table 5

in thousands	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*	*CAGR*
Hotels - Owned	$ 97,823	$ 104,495	$ 114,364	$ 120,502	$ 107,473	$ 103,880	*$ 108,089*	*1.01%*
Hotels - Leased	$ 48,302	$ 50,322	$ 51,804	$ 50,050	$ 41,906	$ 38,782	*$ 46,861*	*-3.59%*
Franchise	$ 2,860	$ 2,853	$ 2,756	$ 1,862	$ 1,678	$ 2,894	*$ 2,484*	*0.20%*
Entertainment and Other	$ 14,068	$ 12,698	$ 17,969	$ 15,156	$ 14,331	$ 12,114	*$ 14,389*	*-2.46%*
Total Revenues	**$ 163,053**	**$ 170,368**	**$ 186,893**	**$ 187,570**	**$ 165,388**	**$ 157,669**	***$ 171,824***	***-0.56%***

Source: Company SEC 2005 to 2009 10-K annual filings, EIU

- Hotels (owned and leased): Historically RLH's major revenue sources, representing between 89% and 90.5% of its revenues. The conducted statistical analyses previously described demonstrate strong correlation (86%) between real GDP and Hotel (owned and leased) revenue. Therefore, the expected real GDP until 2020 was projected in accordance to the EIU's forecasts, so that Hotels (owned and forecasted) are forecasted on an individual basis per year. It should be reemphasized that the EIU's real GDP forecasts and thus revenue growth expectations are significantly more "aggressive" and optimistic (average revenue growth expectations of 2.52% per year) than RLH's historical revenue development.
- Franchise: In order to determine a franchise revenue growth rate, two peer groups were defined that like RLH receive revenue inflows from franchising (small cap and large cap, described above). While this was done to study the impact of size differences on revenue growth rates for both peers group, the CAGR for the last five years fluctuated between 0.27% and 4.6%. Whereas RLH management has been reiterating in its financial reports and conference calls that franchising will be grown to become a major revenue source, Table 15 above (with revenues mainly flat) does not substantiate this statement.[10] However, we have still assumed in our projection an optimistic annual franchise revenue growth rate of 5%, thus assuming that RLH will outperform current small and large cap franchising competitors.
- Entertainment & Other: Also for this business segment a very optimistic demand outlook was assumed by linking it to EIU's real GDP growth expectations. This despite the fact that RLH has been losing ground in the Entertainment & Other segment as a result of losing the promotion rights to shows such as The Lion King in Honolulu in 2008 and overall a declining number of

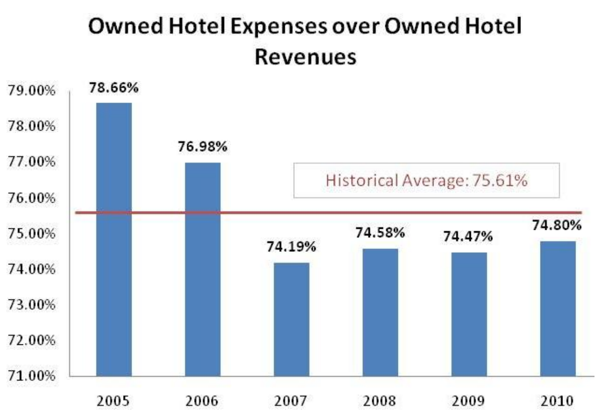
[10] Company SEC 2005-2010 10-K annual filing and Earnings Conference Call (2009)

promoted shows.[11] The study of analyst reports, financial information, and conference call transcripts does not allow concluding that this segment will regain historical growth.

Cost of Goods Sold: It should be noted that in forecasting RLH's expenses a similar approach to the one used for the revenue sources was employed, namely for improved accuracy purposes expenses were individually analyzed for Hotel (owned and leased properties), Franchise, and Entertainment & Other segments.

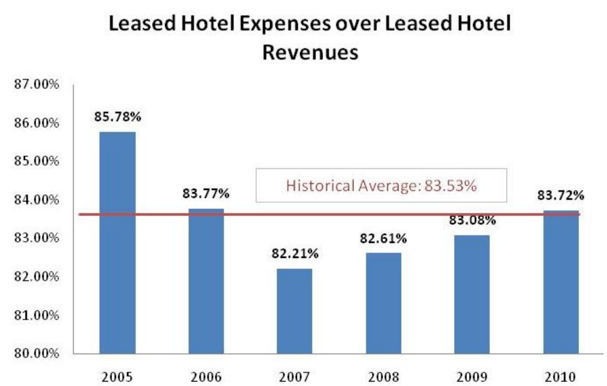
- Hotels (owned and leased): RLH has been reducing its ratio of owned hotel expenses over owned hotel revenues by implementing cost controls (i.e. improved economies of scale in purchasing and reduction in work force).[12] Since 2007 the ratio has remained at the 74%-level, so that for the forecast a ratio of owned hotel expenses to owned hotel revenues of 74.51% was assumed. For leased hotel expenses over leased hotel revenues the historical average (2005 – 2010) of 83.53% was used in the projections.

Figure 14



Source: Company SEC 2005 to 2009 10-K annual filings

Figure 15



Source: Company SEC 2005 to 2009 10-K annual filings

- Franchise and Entertainment & Other: Given the franchise costs to franchise revenues trend, the authors assumed that the historical average of 24.89% (2005 – 2010) is an adequate representation for forecasting purposes. The same holds true for RLH's Entertainment & Other cost position with an historical average of 85.15% (2005 – 2010).

Table 6

	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*
Franchise Costs / Franchise Revenues	22.80%	28.32%	29.54%	19.07%	25.63%	24.00%	*24.89%*
Entertainment & Other Costs / Entertainment & Other Revenues	84.72%	86.43%	82.64%	87.98%	80.53%	88.77%	*85.18%*

Source: Company SEC 2005 to 2009 10-K annual filings

Leases: These have historically fluctuated between $6.5M and $7.3M, with an average of $6.8M. Due to the long-term nature of RLH's leases, the historical average of lease expense over lease revenues

[11] Company SEC 2008 10-K annual filing (2009)
[12] *Ibid.*

(14.72%) was used to project future values. The authors do not foresee that RLH will substantially deviate from its historical "lease expense band" ($6.5 - $7.3 million) over the next years.

Table 7

in thousands	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*	*CAGR*
Leases	$ 6,553	$ 6,449	$ 6,490	$ 6,998	$ 6,976	$ 7,280	*$ 6,791*	*1.77%*

Source: Company SEC 2005 to 2009 10-K annual filings

Table 8

	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*
Lease Expense / Lease Revenues	13.57%	12.82%	12.53%	13.98%	16.65%	18.77%	*14.72%*

Source: Company SEC 2005 to 2009 10-K annual filings

Undistributed Corporate Expenses: These were forecasted to follow the past pattern and thus were assumed to be at 3.39% of Total Revenues.

Table 9

	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*
Undistributed Corporate Expenses / Total Revenues	2.49%	3.08%	3.12%	5.14%	3.14%	3.33%	*3.39%*

Source: Company SEC 2005 to 2009 10-K annual filings

Tax Rate: Calculated by averaging $\frac{Cash\ Tax\ Paid}{FCF\ Before\ Taxes}$ for the years 2005 – 2009, resulting in a tax rate of 38.80%

Change in Working Capital: The difference between Current Assets and Current Liabilities was estimated as a percentage of Total Revenues. This percentage has been at 0.0055% of Total Revenues. For this reason, the authors assumed that this relationship will continue to hold true for the future.

Net Capital Expenditure (Net CAPEX): In estimating RLH's Net CAPEX for upcoming years, the last two years' Net CAPEX trends are not representative. For this reason, the time horizon of the analysis was expanded to also include the years 2002 – 2005. The observed Net CAPEX over Total Revenues ratio greater than 20% was driven by the acquisition of the Red Lion Hotel Denver Southeast and other hotels in Anaheim.[13] The authors do not believe that RLH will execute similar investments to the ones in 2006 and 2008. This is corroborated by the current (2009) Net CAPEX returning to levels reached prior 2004 and management's statements that capital expenditures will be strongly restricted to maintenance and technology investments.[14] Additionally, the current market environment does not allow concluding that

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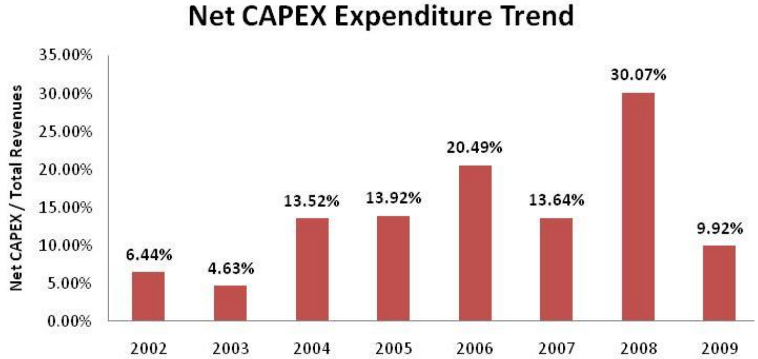
[13] *Ibid.*
[14] *Ibid.*

demand will require additional capital expenditures soon. Thus, the authors assume Net CAPEX to be at 7%[15] of Total Revenues until 2020.

Figure 16



Source: Company's 10-K annual filings

Depreciation: For the period 2005 – 2010 the average Depreciation rate is of 9.85% (of Total Revenues). Taking into consideration a conservative capital expenditure policy, the authors assume that RLH will mainly execute replacement investments of depreciated objects, so that the depreciation rate will remain at 9.85%.

Table 10

	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*
Depreciation & Amortization / Total Revenues	6.80%	7.44%	8.84%	10.30%	12.67%	13.05%	*9.85%*

Source: Company SEC 2005 to 2009 10-K annual filings

Total Debt: In order to estimate RLH's Total Debt, the Total Debt over Total Revenues ratio was studied, resulting in 79.76% of Total Revenues (2005 – 2009). The latest financial reports and conference calls, however, indicate that the RLH management is planning to further reduce its Total Debt in order to reduce its current leverage exposure.[16]

Table 11

	2005	2006	2007	2008	2009
Total Debt/Equity	139.7%	63.2%	62.5%	82.8%	77.9%
Total Debt/Capital	57.8%	38.7%	38.5%	45.3%	43.8%
EBITDA / Interest Exp.	1.6x	2.0x	3.4x	3.2x	3.1x

Source: Capital IQ

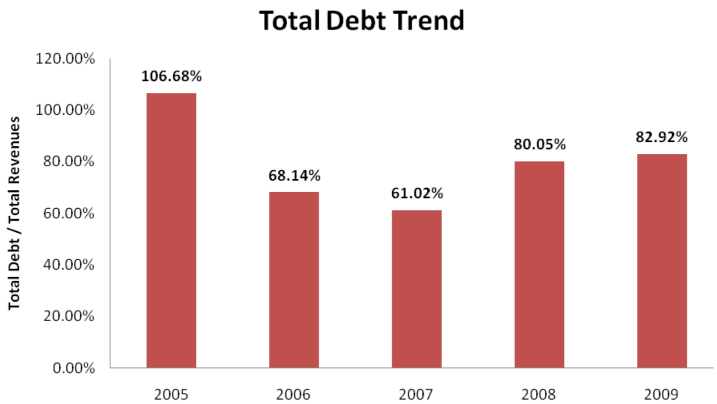
While the authors believe that Free Cash Flow will be used to repay interest expenses and principal, it is assumed that RLH will reduce its Total Debt to Total Revenues ratio to the four year historical average

[15] This represents the Net Capex of "non-peak" years, namely 2002, 2003, and 2009

[16] Company SEC 2009 10-K annual filing (2010) and Earnings Conference Call (2009)

level (2006 – 2009) of 73.04%. This steady Total Debt to Total Revenues level, however, will not be reached before 2013 with the current Free Cash Flow levels.

Figure 17



Source: Company's 10-K annual filings

Interest Expenses: In order to estimate RLH's interest expenses its weighted average borrowing costs were further analyzed. Whereas the current US interest rate policy makes it reasonable to conclude that interest rates will remain at historical minimums to stimulate a slowly recovering economy,[17] we have accounted for potential interest rates increases and potential higher borrowing costs for RLH by using RLH's five year (2005 – 2009) weighted average borrowing costs with 7.26% in our projections. From the research no reason was found to foresee that a substantial deviation from these projections will occur.

Table 12

	2005	2006	2007	2008	2009	*Averages (2005 - 2010)*
Borrowing Cost	7.90%	7.80%	7.80%	6.20%	6.60%	*7.26%*

Source: Company SEC 2005 to 2009 10-K annual filings

Beta: To estimate RLH's beta, we used the historical returns of a U.S. 1-month treasury bond as reported by the Federal Reserve Bank of St. Louis,[18] and the historical returns of the market (Wilshire 5000 for 2009 and CRSP for the rest of the years). The beta corresponding to 11/1/2010 is of 1.71.

[17] Lazzaro, J. (Nov 2010): http://www.dailyfinance.com/story/fed-to-buy-600-billion-in-bonds/19701262/
[18] https://research.stlouisfed.org/fred2/series/DGS1MO?cid=115

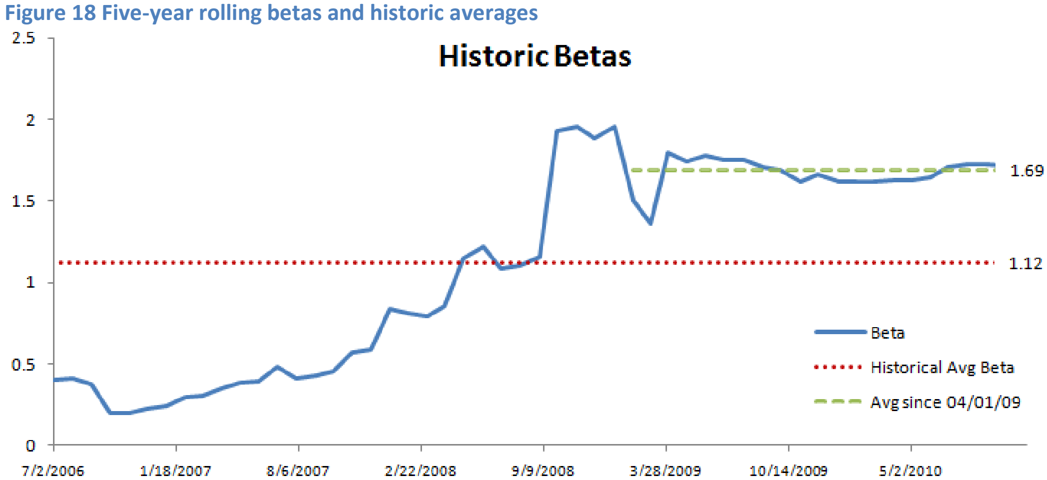
Table 13 RLH and market returns, and calculations of RLH's beta

Date	RLH Price	R_i (RLH)	R_m (Wilshire & CRSP)	R_f (1 month St Louis Fed)	R_i - R_f	R_m - R_f	Beta
10/1/2010	7.87	5.8%	3.9%	0.14%	5.64%	3.75%	1.71649
9/1/2010	7.44	19.0%	9.3%	0.12%	18.92%	9.15%	1.72693
8/2/2010	6.25	-16.1%	-4.8%	0.15%	-16.26%	-4.97%	1.72844
7/1/2010	7.45	24.8%	6.8%	0.16%	24.63%	6.63%	1.70333
6/1/2010	5.97	-9.4%	-3.5%	0.08%	-9.49%	-3.61%	1.64659
5/3/2010	6.59	-13.7%	-10.1%	0.15%	-13.89%	-10.23%	1.62794
4/1/2010	7.64	5.8%	2.1%	0.15%	5.67%	1.94%	1.62514
3/1/2010	7.22	14.2%	6.2%	0.12%	14.12%	6.05%	1.61819
2/1/2010	6.32	6.6%	3.2%	0.06%	6.52%	3.18%	1.61624
1/4/2010	5.93	20.0%	-3.4%	0.02%	20.02%	-3.46%	1.61547

Source: Wilshire 5000 (Yahoo Finance), CRSP, Federal Reserve Bank of St. Louis

In order to validate the relevance of this value, we next proceeded to calculate the average of RLH's 5-year rolling betas. The average value since 2008 is 1.12, which differs substantially from the 1.71 valued obtained. However, figure 18 below suggests that RLH's beta has stabilized since April 2009 at a value of 1.69, very similar to the 1.71 obtained. It further shows that RLH's beta has been oscillating up and down since, but deviating little from this value. For this reason, 1.69 was used for valuation purposes.

Figure 18 Five-year rolling betas and historic averages



Source: Wilshire 5000 (Yahoo Finance), CRSP, Federal Reserve Bank of St. Louis

Tables 18 -21 in the Appendix show our DCF analysis and a summary of our valuation. As can be seen, due to its heavy debt, RLH's actual market value is of $144,409 (stock price of $5.61). It is thus our recommendation to **SELL** this stock. The price of $5.61 represents the price before any management change. The market has incorporated in the current valuation a price premium due to expectations that the new management will outperform the market. However, the industry fundamentals and RLH fundamentals have at best remained stable. Figure 19 below shows the point when the stock price increased to $5.53, which coincides with the announcement of the new CEO (see point J in the chart) appointment.

Figure 19

Source: Google Finance

Sensitivity Analysis

To further substantiate our conclusion, a sensitivity analysis was done. Table 14 below shows the results. As it can be seen, in order to obtain a valuation similar to the current market capitalization, a growth rate of 4.5% would be needed. Given the analysis presented, the authors do not see this level of growth as possible.

Table 14

		Equity Beta					
		1.12	**1.30**	**1.69**	**1.71**	**1.78**	**2.00**
Average Annual Sales Growth Rate	**2.52%**	$ 167,300	$ 143,113	**$ 103,898**	$ 102,249	$ 96,703	$ 81,255
	3.50%	$ 206,355	$ 174,389	$ 125,097	$ 123,090	$ 116,375	$ 97,968
	4.50%	$ 269,878	$ 223,576	$ 157,383	$ 154,812	$ 146,274	$ 123,385
	5.50%	$ 388,965	$ 311,630	$ 213,911	$ 210,384	$ 198,802	$ 168,723

Current Valuation (monthly returns)
Google Finance / Own calculation (10 year returns)
Market Expectation

Possible Exit Strategies

Given the weak prospect for the company's financial position in the coming years, RLH might soon be in the need to divest its assets if unable to meet its covenants.

Alternatively, RLH might expect to receive bids from competitors in the near future, since it constitutes an excellent merger or acquisition target for buyers seeking to i.e. reap synergies by combining operations or reduce competition in the time share market through an acquisition. We do not expect that a financial investor, such as a Private Equity firm, will enter the space because of RLH's already highly leveraged capital structure and the limited growth expectations.

Appendix

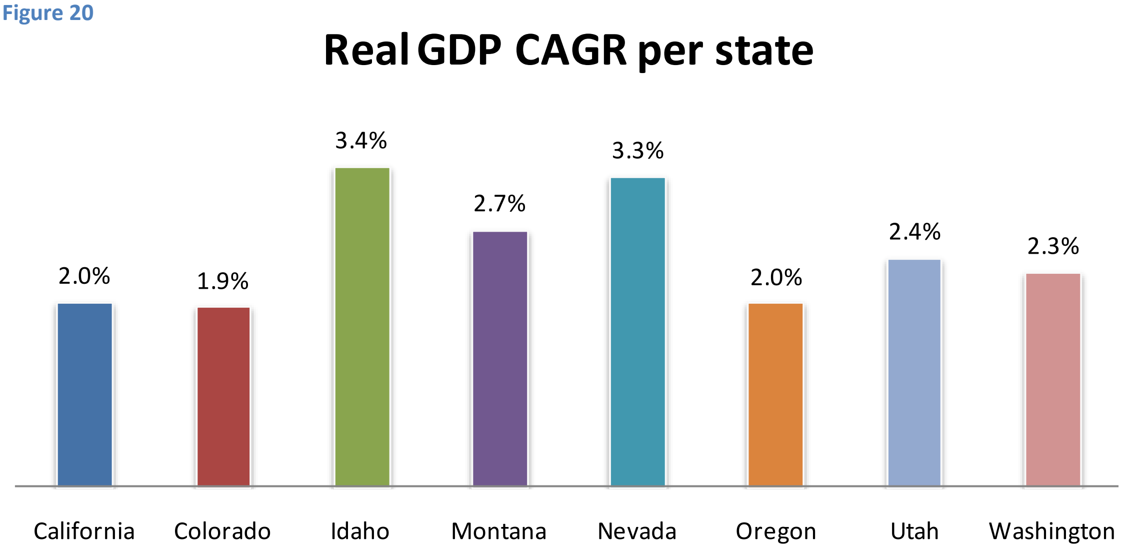
Real GDP by state (millions of chained 2000 dollars)

State	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR
California	1,287,145	1,281,733	1,298,750	1,337,845	1,406,809	1,467,893	1,512,852	1,539,444	1,546,125	1,564,402	2.0%
Colorado	171,862	174,763	175,484	176,525	180,595	188,353	193,398	197,303	203,024	207,743	1.9%
Idaho	34,989	35,220	35,696	36,474	39,605	42,905	43,767	45,545	45,547	48,897	3.4%
Montana	21,366	21,670	22,248	23,316	24,018	25,203	25,825	26,776	27,253	27,989	2.7%
Nevada	73,719	75,131	77,081	81,581	89,856	97,228	101,126	103,853	103,192	101,965	3.3%
Oregon	112,438	110,513	115,000	117,906	125,874	129,391	139,585	144,755	147,059	136,450	2.0%
Utah	67,568	68,275	69,091	70,158	72,960	77,832	82,697	86,509	87,700	85,974	2.4%
Washington	221,961	220,190	221,115	224,962	230,007	241,807	248,490	259,387	264,633	278,237	2.3%
Average											2.5%

Source: Bureau of Economic Analysis, U.S. Department of Commerce

On average, the eight states where RLH operates have been experiencing a Real GDP growth of 2.5%. This value is in line with the expected Real GDP growth for the U.S. for the coming years.

Figure 20



Source: Bureau of Economic Analysis

Table 15

Real GDP Growth (Actual vs. Forecasts)

Year	Actual	Philadelphia Fed	Error (BP)	EIU	Error (BP)
2000	4.1%	3.8%	-30	3.8%	-30
2001	1.1%	2.2%	110	2.5%	140
2002	1.8%	1.4%	-40	1.1%	-70
2003	2.5%	2.5%	0	2.4%	-10
2004	3.6%	4.6%	100	4.2%	60
2005	3.1%	3.7%	60	3.1%	0
2006	2.7%	3.2%	50	2.8%	10
2007	1.9%	2.8%	90	2.3%	40
2008	0.0%	1.8%	180	1.5%	150
2009	-2.6%	-2.0%	60	-2.0%	60
		Average	58		35

Table 16

	Small Cap Peers				
	RLH Red Lion	GET Gaylord	MHGC Morgans	SNSTA Sonesta	Average
share price as of 12/11/2010	$ 7.50	$ 32.22	$ 7.75	$ 18.00	
x Diluted shares outstanding	18.52	47.17	30.1	3.70	
= Market Value (in $M)	$ 138.90	$ 1,519.82	$ 233.35	$ 66.60	
+ Total debt	$ 130.58	$ 960.00	$ 610.00	$ 33.55	
-Cash & Equivalents	$ (3.15)	$ (136.0)	$ (37.74)	$ (27.42)	
= Enterprise Value	$ 266	$ 2,344	$ 806	$ 73	
EBITDA	$ 23.99	$ 129.47	$ 21.82	$ 6.30	
Sales	$ 162.09	$ 809.50	$ 240.44	$ 69.51	
PEG	-3.72	-1.07	-0.31	N/A	-1.70
EV/Sales	1.64	2.90	3.35	1.05	2.23
EV/EBITDA	11.10	18.10	36.92	11.54	19.42

Source: Google Finance

Table 17

	Large Cap Peers			
	MAR Marriott	HOT Starwood	WYN Wyndham	Average
share price as of 12/11/2010	$ 38.30	$ 55.71	$ 28.51	
x Diluted shares outstanding	364.24	190.7	174.97	
= Market Value (in $M)	$ 13,950	$ 10,621	$ 4,988.39	
+ Total debt	$ 2,730.00	$ 3,390.00	$ 3,650.00	
-Cash & Equivalents	$ (223.0)	$ (357.00)	$ (170.00)	
= Enterprise Value	$ 16,457	$ 13,654	$ 8,468	
EBITDA	$ 977	$ 739	$ 914	
Sales	$ 11,430	$ 4,990	$ 3,830	
PEG	2.10	1.21	2.43	1.91
EV/Sales	1.44	2.74	2.21	2.13
EV/EBITDA	16.84	18.48	9.27	14.86

Source: Google Finance

Table 18

		Source description
Risk free rate (R_f) =	1.54%	1 month risk free rate (St. Louis Fed) minus 1% historical risk premium.
Market risk premium ($R_{premium}$) =	5.00%	historical value
Tax rate (T_c) =	38.80%	average of SVLF's Cash Taxes Paid / FCF Before Taxes over last 5 years
Equity beta (β_{Equity}) =	1.69	regression of equity returns over index returns
Debt beta (β_{Debt}) =	1.61	
Cost of debt (R_d) =	7.10%	Not publicly traded; corrected YTM by historical relationship between YTM and r_D
Cost of equity (R_e) =	9.99%	
Asset beta (β_{Asset}) =	1.66	
Unlevered cost of equity (R_a) =	9.84%	
Market capitalization (E) -in Million USD- =	144.41	Google Finance as of 11/26/2010
Total Debt (D) -in Million USD- =	137.15	Capital IQ as of 11/26/2010
Growth rate	2.52%	Average of EIU's forecasted real GDP growth (2011 - 2020)

Table 19

in thousands USD	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Forecast Assumptions
Hotels - Owned	$ 114,364	$ 120,502	$ 107,473	$ 103,880	$ 106,598	$ 110,626	$ 115,770	$ 121,826	$ 128,907	$ 137,148	$ 146,314	$ 156,092	$ 166,978	$ 178,622	Based on EIU's forecasted GDP
Hotels - Leased	$ 51,804	$ 50,050	$ 41,906	$ 38,782	$ 39,797	$ 41,300	$ 43,221	$ 45,482	$ 48,125	$ 51,202	$ 54,624	$ 58,274	$ 62,338	$ 66,686	Based on EIU's forecasted GDP
Franchise	$ 2,756	$ 1,862	$ 1,678	$ 2,894	$ 3,039	$ 3,191	$ 3,350	$ 3,518	$ 3,694	$ 3,878	$ 4,072	$ 4,276	$ 4,490	$ 4,714	Historical comparison group CAGR range (0.27% - 4.6%). Assumption outperformance at 5%
Entertainment and Other	$ 17,969	$ 15,156	$ 14,331	$ 12,114	$ 12,431	$ 12,901	$ 13,501	$ 14,207	$ 15,033	$ 15,994	$ 17,062	$ 18,203	$ 19,472	$ 20,830	Based on EIU's forecasted GDP
Total Revenues	*$ 186,893*	*$ 187,570*	*$ 165,388*	*$ 157,669*	*$ 161,864*	*$ 168,018*	*$ 175,842*	*$ 185,033*	*$ 195,758*	*$ 208,221*	*$ 222,072*	*$ 236,845*	*$ 253,278*	*$ 270,852*	
Hotels - Owned	$ 84,844	$ 89,867	$ 80,037	$ 77,699	$ 79,426	$ 82,427	$ 86,260	$ 90,773	$ 96,048	$ 102,189	$ 109,018	$ 116,304	$ 124,415	$ 133,092	Historical average share (2007 - 2010) of 74.51% of Owned Hotel Revenues
Hotels - Leased	$ 42,587	$ 41,347	$ 34,815	$ 32,467	$ 33,242	$ 34,498	$ 36,102	$ 37,991	$ 40,199	$ 42,769	$ 45,627	$ 48,677	$ 52,071	$ 55,703	Historical average share (2005 - 2010) of 83.53% of Leased Hotel Revenues
Franchise	$ 814	$ 355	$ 430	$ 695	$ 756	$ 794	$ 834	$ 876	$ 919	$ 965	$ 1,014	$ 1,064	$ 1,117	$ 1,173	Historical average share (2005 - 2010) of 24.89% of Franchise Revenues
Entertainment and Other	$ 14,849	$ 13,334	$ 11,541	$ 10,754	$ 10,589	$ 10,989	$ 11,500	$ 12,101	$ 12,805	$ 13,623	$ 14,534	$ 15,505	$ 16,586	$ 17,743	Historical average share (2005 - 2010) of 85.18% of Entertainment & Other Revenues
Depreciation & Amortization	$ 16,528	$ 19,316	$ 20,954	$ 20,574	$ 15,944	$ 16,550	$ 17,320	$ 18,226	$ 19,282	$ 20,510	$ 21,874	$ 23,329	$ 24,948	$ 26,679	Historical average share (2005 - 2010) of 9.85% of Total Revenues
Leases	$ 6,490	$ 6,998	$ 6,976	$ 7,280	$ 6,554	$ 6,802	$ 7,118	$ 7,491	$ 7,926	$ 8,433	$ 8,997	$ 9,598	$ 10,267	$ 10,983	Historical average share (2008 - 2010) of 16.47% of Leased Hotel Revenues
Undistributed Corporate Expenses	$ 5,840	$ 9,643	$ 5,200	$ 5,250	$ 5,487	$ 5,696	$ 5,961	$ 6,273	$ 6,636	$ 7,059	$ 7,528	$ 8,029	$ 8,586	$ 9,182	Historical average share (2005 - 2010) of 3.39% of Total Revenues
Gain on Asset Disposal	$ (437)	$ (156)	$ (243)	$ (400)	$ (631)	$ (655)	$ (686)	$ (722)	$ (763)	$ (812)	$ (866)	$ (924)	$ (988)	$ (1,056)	Historical average share (2005 - 2010) of 0.39% of Total Revenues
Impairment Loss	$ -	$ -	$ 8,686	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Restructuring Expenses	$ -	$ 2,067	$ 136	$ -	$ 367	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Total Operating Expenses	*$ 171,515*	*$ 182,771*	*$ 168,532*	*$ 154,318*	*$ 151,734*	*$ 157,101*	*$ 164,411*	*$ 173,008*	*$ 183,053*	*$ 194,735*	*$ 207,726*	*$ 221,583*	*$ 237,004*	*$ 253,498*	
Operating Income / EBIT	**$ 15,378**	**$ 4,799**	**$ (3,144)**	**$ 3,351**	**$ 10,130**	**$ 10,917**	**$ 11,431**	**$ 12,024**	**$ 12,705**	**$ 13,486**	**$ 14,346**	**$ 15,262**	**$ 16,274**	**$ 17,354**	
Interest Expense	$ 9,172	$ 9,247	$ 8,503	$ 9,957	$ 9,810	$ 9,691	$ 9,515	$ 9,284	$ 8,989	$ 8,616	$ 8,153	$ 7,585	$ 6,900	$ 6,083	
Other Financial Expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Other Income	$ 1,266	$ 1,530	$ 936	$ 1,135	$ 1,165	$ 1,210	$ 1,266	$ 1,332	$ 1,409	$ 1,499	$ 1,599	$ 1,705	$ 1,824	$ 1,950	Historical average share (2005 - 2010) of 0.72% of Total Revenues
Earnings before Taxes (EBT)	**$ 7,472**	**$ (2,918)**	**$ (10,711)**	**$ (5,470)**	**$ 1,485**	**$ 2,435**	**$ 3,183**	**$ 4,073**	**$ 5,126**	**$ 6,369**	**$ 7,792**	**$ 9,383**	**$ 11,197**	**$ 13,222**	
Tax Expense (Benefit)	$ 2,207	$ (1,202)	$ (4,063)	$ (2,122)	$ 576	$ 945	$ 1,235	$ 1,580	$ 1,989	$ 2,471	$ 3,023	$ 3,641	$ 4,345	$ 5,130	Average of RLH's Cash Taxes Paid/FCF Before Taxes over last 5 years (38.80%)
Net Income (Loss)	**$ 5,265**	**$ (1,716)**	**$ (6,648)**	**$ (3,348)**	**$ 909**	**$ 1,490**	**$ 1,948**	**$ 2,492**	**$ 3,137**	**$ 3,898**	**$ 4,769**	**$ 5,742**	**$ 6,853**	**$ 8,092**	

Table 20

in thousands USD	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Forecast Assumptions
Hotels - Owned	$ 114,364	$ 120,502	$ 107,473	$ 103,880	$ 106,598	$ 110,626	$ 115,770	$ 121,826	$ 128,907	$ 137,148	$ 146,314	$ 156,092	$ 166,978	$ 178,622	Based on EIU's forecasted GDP
Hotels - Leased	$ 51,804	$ 50,050	$ 41,906	$ 38,782	$ 39,797	$ 41,300	$ 43,221	$ 45,482	$ 48,125	$ 51,202	$ 54,624	$ 58,274	$ 62,338	$ 66,686	Based on EIU's forecasted GDP
Franchise	$ 2,756	$ 1,862	$ 1,678	$ 2,894	$ 3,039	$ 3,191	$ 3,350	$ 3,518	$ 3,694	$ 3,878	$ 4,072	$ 4,276	$ 4,490	$ 4,714	Historical comparison group CAGR range (0.27% - 4.6%). Assumption outperformance at 5%
Entertainment and Other	$ 17,969	$ 15,156	$ 14,331	$ 12,114	$ 12,431	$ 12,901	$ 13,501	$ 14,207	$ 15,033	$ 15,994	$ 17,062	$ 18,203	$ 19,472	$ 20,830	Based on EIU's forecasted GDP
Total Revenues	*$ 186,893*	*$ 187,570*	*$ 165,388*	*$ 157,669*	*$ 161,864*	*$ 168,018*	*$ 175,842*	*$ 185,033*	*$ 195,758*	*$ 208,221*	*$ 222,072*	*$ 236,845*	*$ 253,278*	*$ 270,852*	
Hotels - Owned	$ 84,844	$ 89,867	$ 80,037	$ 77,699	$ 79,426	$ 82,427	$ 86,260	$ 90,773	$ 96,048	$ 102,189	$ 109,018	$ 116,304	$ 124,415	$ 133,092	Historical average share (2007 - 2010) of 74.51% of Owned Hotel Revenues
Hotels - Leased	$ 42,587	$ 41,347	$ 34,815	$ 32,467	$ 33,242	$ 34,498	$ 36,102	$ 37,991	$ 40,199	$ 42,769	$ 45,627	$ 48,677	$ 52,071	$ 55,703	Historical average share (2005 - 2010) of 83.53% of Leased Hotel Revenues
Franchise	$ 814	$ 355	$ 430	$ 695	$ 756	$ 794	$ 834	$ 876	$ 919	$ 965	$ 1,014	$ 1,064	$ 1,117	$ 1,173	Historical average share (2005 - 2010) of 24.89% of Franchise Revenues
Entertainment and Other	$ 14,849	$ 13,334	$ 11,541	$ 10,754	$ 10,589	$ 10,989	$ 11,500	$ 12,101	$ 12,805	$ 13,623	$ 14,534	$ 15,505	$ 16,586	$ 17,743	Historical average share (2005 - 2010) of 85.18% of Entertainment & Other Revenues
Depreciation & Amortization	$ 16,528	$ 19,316	$ 20,954	$ 20,574	$ 15,944	$ 16,550	$ 17,320	$ 18,226	$ 19,282	$ 20,510	$ 21,874	$ 23,329	$ 24,948	$ 26,679	Historical average share (2005 - 2010) of 9.85% of Total Revenues
Leases	$ 6,490	$ 6,998	$ 6,976	$ 7,280	$ 6,554	$ 6,802	$ 7,118	$ 7,491	$ 7,926	$ 8,433	$ 8,997	$ 9,598	$ 10,267	$ 10,983	Historical average share (2008 - 2010) of 16.47% of Leased Hotel Revenues
Undistributed Corporate Expenses	$ 5,840	$ 9,643	$ 5,200	$ 5,250	$ 5,487	$ 5,696	$ 5,961	$ 6,273	$ 6,636	$ 7,059	$ 7,528	$ 8,029	$ 8,586	$ 9,182	Historical average share (2005 - 2010) of 3.39% of Total Revenues
Gain on Asset Disposal	$ (437)	$ (156)	$ (243)	$ (400)	$ (631)	$ (655)	$ (686)	$ (722)	$ (763)	$ (812)	$ (866)	$ (924)	$ (988)	$ (1,056)	Historical average share (2005 - 2010) of 0.39% of Total Revenues
Impairment Loss	$ -	$ -	$ 8,686	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Restructuring Expenses	$ -	$ 2,067	$ 136	$ -	$ 367	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Total Operating Expenses	*$ 358,408*	*$ 370,341*	*$ 333,920*	*$ 311,987*	*$ 313,599*	*$ 325,119*	*$ 340,253*	*$ 358,041*	*$ 378,811*	*$ 402,957*	*$ 429,798*	*$ 458,428*	*$ 490,282*	*$ 524,351*	
Operating Income / EBIT	**$ 15,378**	**$ 4,799**	**$ (3,144)**	**$ 3,351**	**$ 10,130**	**$ 10,917**	**$ 11,431**	**$ 12,024**	**$ 12,705**	**$ 13,486**	**$ 14,346**	**$ 15,262**	**$ 16,274**	**$ 17,354**	
Taxes on EBIT	$ 5,967	$ 1,862	$ (1,220)	$ 1,300	$ 3,930	$ 4,236	$ 4,435	$ 4,665	$ 4,930	$ 5,232	$ 5,566	$ 5,922	$ 6,314	$ 6,733	Average of RLH's Cash Taxes Paid/FCF Before Taxes over last 5 years (38.80%)
NOPLAT	**$ 9,411**	**$ 2,937**	**$ (1,924)**	**$ 2,051**	**$ 6,199**	**$ 6,681**	**$ 6,996**	**$ 7,359**	**$ 7,776**	**$ 8,253**	**$ 8,780**	**$ 9,341**	**$ 9,960**	**$ 10,621**	
Depreciation & Amortization	$ 16,528	$ 19,316	$ 20,954	$ 20,574	$ 15,944	$ 16,550	$ 17,320	$ 18,226	$ 19,282	$ 20,510	$ 21,874	$ 23,329	$ 24,948	$ 26,679	
Change in Working Capital	$ (13.085)	$ 2.448	$ (9.479)	$ 8.071	$ 0.229	$ 0.336	$ 0.427	$ 0.501	$ 0.585	$ 0.680	$ 0.755	$ 0.806	$ 0.896	$ 0.959	Historical average share of 0.0055% of Total Revenues
Net CAPEX	$ 25,063	$ 56,244	$ 16,157	$ 10,637	$ 10,699	$ 11,106	$ 11,623	$ 12,231	$ 12,940	$ 13,763	$ 14,679	$ 15,655	$ 16,742	$ 17,903	2010 - 2020: 7% of Total Revenues and adjustments for asset disposals
Free Cash Flow (FCF)	**$ 889**	**$ (33,993)**	**$ 2,882**	**$ 11,980**	**$ 11,444**	**$ 12,124**	**$ 12,693**	**$ 13,353**	**$ 14,118**	**$ 14,999**	**$ 15,974**	**$ 17,014**	**$ 18,165**	**$ 19,395**	$ 271,748 **Terminal Value**
Present Value (PV)				$ 10,907	$ 9,486	$ 9,150	$ 8,721	$ 8,353	$ 8,040	$ 7,777	$ 7,541	$ 7,312	$ 7,108	$ 6,910	$ 88,141
Net Present Value (NPV)	**BUSINESS OPERATIONS**		**$ 179,446**												

Table 21

Debt Beginning Balance	$ 116,097	$ 114,045	$ 150,156	$ 137,147	$ 135,124	$ 133,490	$ 131,057	$ 127,879	$ 123,810	$ 118,680	$ 112,298	$ 104,476	$ 95,048	$ 83,783	
															2010 - 2012: FCF to repay debt and 2013 - 2020:
Debt Ending Balance	$ 114,045	$ 150,156	$ 137,147	$ 135,124	$ 133,490	$ 131,057	$ 127,879	$ 123,810	$ 118,680	$ 112,298	$ 104,476	$ 95,048	$ 83,783	$ 70,470	Total Debt / Total Revenus at 73.04%
Interest Expenses	$ 9,172	$ 9,247	$ 8,503	$ 9,957	$ 9,810	$ 9,691	$ 9,515	$ 9,284	$ 8,989	$ 8,616	$ 8,153	$ 7,585	$ 6,900	$ 6,083	Historical average borrowing cost of 7.14%
Tax Debt Shield	$ 3,559	$ 3,588	$ 3,299	$ 3,863	$ 3,806	$ 3,760	$ 3,692	$ 3,602	$ 3,488	$ 3,343	$ 3,163	$ 2,943	$ 2,677	$ 2,360	$ 52,828 Terminal Value
Present Value (PV)				$ 3,607	$ 3,318	$ 3,061	$ 2,806	$ 2,556	$ 2,311	$ 2,068	$ 1,827	$ 1,587	$ 1,348	$ 1,110	$ 23,195
Net Present Value (NPV)	**TAX SHIELD**		**$ 48,796**												
Earnings before Taxes (EBT)	$ 7,472	$ (2,918)	$ (10,711)	$ (5,470)	$ 1,485	$ 2,435	$ 3,183	$ 4,073	$ 5,126	$ 6,369	$ 7,792	$ 9,383	$ 11,197	$ 13,222	
Net Operating Loss applied	$ (2,209)	$ -	$ -	$ -	$ (1,485)	$ (2,435)	$ (3,183)	$ (4,073)	$ (5,126)	$ (6,369)	$ (315)	$ -	$ -	$ -	
Reduction in Taxes paid	$ (857)	$ -	$ -	$ -	$ (576)	$ (945)	$ (1,235)	$ (1,580)	$ (1,989)	$ (2,471)	$ (122)	$ -	$ -	$ -	
Present Value (PV)				$ -	$ (501)	$ (766)	$ (934)	$ (1,114)	$ (1,308)	$ (1,515)	$ (70)	$ -	$ -	$ -	
Net Present Value (NPV)	**NET OPERATING LOSSES (NOLs)**		**$ 8,918**												

Total Enterprise Value	**$ 237,154**	**Business Operations + Tax Shield + NOLs**
Debt	$ (137,147)	
Cash	$ 3,885	
Total Equity Value	**$ 103,892**	
Market Cap (11/26/2010)	**$ 144,409**	
Thousand shares outstanding (11/26/2010; Google Finance)	**18,520**	
Share Closing Price (11/26/2010; Google Finance)	**$ 7.80**	
Share Closing Price (as per Portal & Vicente)	**$ 5.61**	