

## Red Lion Hotels Corporation Reports Fourth Quarter and Year-End Results

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### Renovations Drive Continued Growth in RevPAR and EBITDA

Red Lion Hotels Corporation (NYSE:RLH) announced today results for the fourth quarter and year ended December 31, 2006.

#### Key Fourth Quarter Operating Results

- œ RevPAR (revenue per available room) increased 7.4% to \$41.16 at system-wide hotels
- œ ADR (average daily rate) increased 8.7% to \$79.90 at system-wide hotels
- œ Occupancy declined 0.7 percentage points to 51.5% at system-wide hotels
- œ RevPAR from continuing hotel operations increased 8.1%
- œ Total revenues from continuing operations increased 5.7% to \$39.5 million
- œ Hotel segment direct operating margin improved 70 basis points
- œ Net loss from continuing operations improved to \$1.4 million, excluding a gain on early extinguishment of debt
- œ EPS from continuing operations was \$(0.07) per fully diluted share, excluding a gain on early extinguishment of debt
- œ EBITDA from continuing operations increased 6.9% to \$3.8 million, excluding a gain on early extinguishment of debt
- œ Including the gain on early extinguishment of debt, reported net loss from continuing operations was \$1.1 million, reported EPS from continuing operations was \$(0.06) per fully diluted share and reported EBITDA from continuing operations was \$4.3 million

#### Key Full Year 2006 Operating Results

- œ RevPAR increased 7.9% to \$48.54 at system-wide hotels
- œ ADR increased 9.2% to \$81.33 at system-wide hotels
- œ Occupancy declined 0.7 percentage points to 59.7% at system-wide hotels
- œ RevPAR from continuing hotel operations increased 7.2%
- œ Total revenues from continuing operations increased 4.5% to \$170.4 million
- œ Hotel segment direct operating margin improved 190 basis points
- œ Net income from continuing operations was \$2.9 million, excluding an expense for early extinguishment of debt, up \$3.9 million from a net loss of \$1.0 million in 2005
- œ EPS from continuing operations was \$0.17 per fully diluted share, excluding an expense for early extinguishment of debt, up \$0.25 from \$(0.08) per fully diluted share in 2005
- œ EBITDA from continuing operations increased 20.2% to \$27.9 million, excluding an expense for early extinguishment of debt
- œ Including the expense for early extinguishment of debt, reported net loss from continuing operations was \$0.5 million, reported EPS from continuing operations was \$(0.03) per fully diluted share and reported EBITDA from continuing operations was \$22.6 million

#### Significant Events in 2006

- œ Completed the largest room renovation program in company history
- œ Completed public offering of 5.8 million shares of common stock, generating gross proceeds of \$64.3 million
- œ Obtained a new \$50 million revolving credit facility
- œ Repaid approximately \$59.1 million of debt

œ Divested non-core real estate management business

œ Completed the sale of three non-core hotels for \$15.8 million of proceeds

Arthur M. Coffey, President and CEO of Red Lion Hotels Corporation, said, "Red Lion posted exceptional results in 2006, with strong EBITDA growth driven by significant increases in RevPAR and a strong improvement in direct hotel operating margin. We completed extensive room renovations at our hotels and enhanced our capital structure through the combination of successfully completing a follow-on equity offering, and subsequently repaying expensive debt and obtaining a new credit facility. These accomplishments have elevated the Red Lion brand and laid the foundation for our long term goal of expansion into new markets. As we enter 2007, the Red Lion brand and the company's financial position are both stronger than ever."

The company's total revenues from continuing operations during the quarter were \$39.5 million, up 5.7% from the same quarter of 2005. Revenues in the hotel segment were up 6.7% over the prior year period to \$35.6 million. Franchise and management revenues increased to \$0.8 million. Revenues in the entertainment segment declined to \$2.4 million.

In the fourth quarter, the company listed for sale its Lincoln Plaza office and retail complex in Spokane, Washington, including the 110,000 square foot Lincoln Building, the 43,000 square foot Grant Building and associated underground parking. These assets have been reclassified as held for sale on the company's balance sheet and are now included in discontinued operations. Revenues from the company's remaining non-core commercial real estate activities are now classified under other revenues.

In the fourth quarter, the company recorded a net gain of \$0.5 million from the early extinguishment of debt, primarily related to an incentive achieved for meeting development targets in connection with the renovation and expansion of a hotel. Excluding the after-tax impact of the net gain related to this early extinguishment of debt, EBITDA from continuing operations in the fourth quarter increased 6.9% to \$3.8 million, and net loss from continuing operations improved to \$1.4 million, or \$0.07 per fully diluted share, compared to a net loss of \$1.7 million, or \$0.13 per share in the prior year period. Reported EBITDA from continuing operations for the quarter was \$4.3 million, and reported net loss from continuing operations was \$1.1 million or \$0.06 per fully diluted share. Overall reported net loss was \$1.1 million or \$0.06 per share.

The company's total revenues from continuing operations for the year ended December 31, 2006, were \$170.4 million, up 4.5% from 2005. In 2006, the company recorded a net expense of \$5.3 million for the early extinguishment of debt primarily related to the repayment of debt secured by one of its hotels and the required repayment of debentures in connection with its public offering. Excluding the after-tax impact of this net expense related to the early extinguishment of debt, EBITDA from continuing operations in 2006 increased 20.2% to \$27.9 million, and net income from continuing operations increased to \$2.9 million, or \$0.17 per fully diluted share, compared to a net loss from continuing operations of \$1.0 million, or \$0.08 per fully diluted share, in 2005. Reported EBITDA from continuing operations for 2006 was \$22.6 million, and reported net loss from continuing operations was \$0.5 million, or \$0.03 per fully diluted share. Overall reported net loss was \$0.6 million, or \$0.03 per fully diluted share.

#### Hotel Operations

In the fourth quarter of 2006, RevPAR for comparable system-wide hotels increased 7.4% over the same quarter of the previous year, to \$41.16. This increase was primarily the result of an 8.7% increase in ADR to \$79.90. Average occupancy declined 0.7 percentage points to 51.5%, from 52.2 % in the 2005 period.

RevPAR from continuing hotel operations at the company's owned and leased hotels increased 8.1% in the fourth quarter of 2006, driven by an increase of 11.7% in ADR and offset by a 1.7 percentage point decrease in occupancy. During the quarter, the company continued to transition from lower rate volume and contract business to higher rate and more profitable corporate, transient and group business.

Revenues from continuing operations for owned and leased hotels increased 6.7% to \$35.6 million during the fourth quarter of 2006. This increase was primarily driven by an 8.9% increase in hotel room revenues, as well as a 5.4% increase in food and beverage revenues. The hotels segment direct operating profit increased \$0.6 million, or 11.6%, to \$5.3 million in the fourth quarter of 2006.

"In 2006, we completed the largest room renovation initiative in the history of the company, on time and with minimal disruption. This led to solid organic growth in our hotel operations," commented John Taffin, Executive Vice President, Hotel Operations. "In 2007, our key objectives are to complete renovations of public guest contact areas, fully implement our upscale brand standards at all of our franchised hotels and expand the Red Lion network of hotels into new markets."

For the full year 2006, RevPAR for comparable system-wide hotels increased 7.9% over 2005, to \$48.54. This increase was primarily the result of a 9.2% increase in ADR to \$81.33. Average occupancy declined 0.7 percentage points to 59.7%, from 60.4 % in 2005.

RevPAR from continuing hotel operations at the company's owned and leased hotels increased 7.2% in 2006, driven by an increase of 11.9% in ADR and offset by a 2.6 percentage point decrease in occupancy. Occupancy in 2006 includes the impact of displacement due to the large number of rooms out of service for renovations in the first two quarters of the year.

Revenues from continuing operations for owned and leased hotels increased 5.9% to \$154.8 million during 2006. The hotels segment direct operating profit increased \$4.5 million, or 16.2%, to \$32.7 million in 2006. Direct operating margin for the hotels segment improved 190 basis points to 21.1% in 2006 from 19.2% in 2005.

## 2006 Highlights and Key Events

In 2006, the company achieved the following goals in furtherance of its growth and business strategies:

### Disposition of Non-Core Hotels

In 2006, the company completed the sale of the Red Lion Hotel Hillsboro in Hillsboro, Oregon, the Red Lion Hotel in Idaho Falls, Idaho and the WestCoast Ridpath Hotel in Spokane, Washington. The company received \$15.8 million in aggregate proceeds from these sales. The total sale proceeds from the company's previously announced disposition program now stands at \$68.8 million. In connection with these hotel sales, Red Lion has paid off a total of \$20.0 million in associated secured debt. The net proceeds were used to fund the company's extensive hotel renovation program. The company continues to actively pursue the disposition of one remaining non-core hotel and surplus undeveloped land previously identified as assets held for sale.

### Divestiture of Non-Core Business Segment

On April 30, 2006, the company divested the real estate management portion of its real estate division in a tax-free reorganization for gross proceeds of \$1.1 million, which resulted in a net gain of approximately \$1.0 million. For the full year 2005, the real estate management business contributed \$2.3 million and \$0.1 million to the company's revenue and operating income, respectively.

### Follow-On Equity Offering

In the second quarter of 2006, the company completed the public offering of 5,845,302 shares of its common stock at a price of \$11.00 per share, generating gross proceeds of \$64.3 million. In connection with the offering, the company retired \$16.1 million of its 9.5% trust preferred securities and used substantially all of the remaining proceeds of the public offering to pay off debt and associated defeasance costs.

### Extensive Room Renovations

The company announced at the end of the second quarter that it had substantially completed planned room renovations at its hotels. The company is now focused on completing renovations of public guest contact areas such as lobbies and meeting rooms, which it expects to complete in early 2007.

### New Acquisition Credit Facility

On September 14, 2006, the company announced the closing of a \$50 million revolving credit facility with Calyon Corporate and Investment Bank as Administrative Agent, Key Bank as Documentation Agent, and CIBC, Union Bank of California and Wells Fargo Bank as participants. The company intends to use the credit facility for general corporate purposes and to finance anticipated future growth.

### Lincoln Plaza

In the fourth quarter, the company completed renovations at the Lincoln Building, a 110,000 square foot office building and associated underground parking located in downtown Spokane, WA. The company listed for sale the Lincoln Building, along with a neighboring development project, the 43,000 square foot Grant Building and associated underground parking, to take advantage of the current favorable market conditions.

### Kalispell Center Complex

In December 2006, the company increased its ownership in the Kalispell Center complex from 50% to 100% through a purchase transaction. The complex includes the Kalispell Center Mall and the Red Lion Kalispell Center Hotel, which was expanded, renovated and rebranded as a Red Lion hotel in June 2006. The hotel features a new lobby, 170 guest rooms and 10,500 square feet of meeting space.

### Enhanced Red Lion Brand Standards

In 2006, the company implemented new upscale brand standards that all Red Lion Hotels are required to meet by the end of 2007. These new standards are intended to be consistent with or better than the finishes commonly found in new homes and feature upgrades that include plush pillow top beds, granite vanities and other upscale furnishings and décor throughout guestrooms, lobbies and meeting areas.

### Franchise Update

In 2006, the company entered into long term franchise agreements in 2006 for two new full service hotels: the Red Lion Hotel Portland Airport, a fully renovated property that opened in September 2006; and the Red Lion Hotel Baton Rouge, which is currently closed for a multi-million dollar renovation and is expected to open in mid-2007. In October 2006, the owner of a franchised hotel in San Diego, California exercised its option to leave the system in the spring of 2007. Also in 2006, the company entered into long term franchise agreements with three new owners of existing franchised Red Lion Hotels and two new owners of Red Lion Hotels the company sold as part of its non-core hotel disposition program. In each case, the new owners agreed to make significant renovations to the hotel to meet the new Red Lion upscale brand standards. In January 2007, the new owner of the Red Lion Hotel and Casino Elko in Elko, Nevada also entered into a new long-term franchise contract for the property and agreed to a multi-million dollar renovation to meet new brand standards.

## Outlook for 2007

The company is currently forecasting RevPAR growth for company owned and leased hotels in the range of 8% to 10% in 2007, driven primarily by anticipated continuing increases in ADR. The company expects direct hotel operating margins in 2007 to continue to improve between 100 and 200 basis points. The company expects EBITDA from continuing operations in 2007 to be in the range of \$31 million to \$33 million.

"Our achievements in 2006 have further positioned the Red Lion brand for growth. The combination of our upscale brand standards coupled with our enhanced capital structure ideally positions Red Lion to implement its growth strategy. As we move into 2007, we will continue to focus on growing our existing operations by generating organic growth, expanding into new markets and taking advantage of appealing opportunities for new franchises, joint ventures and acquisitions," Mr. Coffey concluded.

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