

Red Lion Hotels CORP
Form S-3/A
May 01, 2006

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As filed with the Securities and Exchange Commission on May 1, 2006

Registration No. 333-133287

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 1
to
Form S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
RED LION HOTELS CORPORATION
(Exact name of registrant as specified in its charter)

WASHINGTON

(State or other jurisdiction of incorporation or organization)

91-1032187

(I.R.S. Employer Identification Number)

201 W. North River Drive, Suite 100, Spokane, Washington 99201 (509) 459-6100

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Arthur M. Coffey

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement, as determined by market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check

the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, par value \$.01 per share	6,480,646	\$12.45 per share	\$80,684,043	\$8,633.19(3)

- (1) Includes the underwriters' option to purchase an additional 845,302 shares.
- (2) Estimated solely for the purpose of computing the amount of the registration fee. The registration fee has been calculated in accordance with Rule 457(c) under the Securities Act of 1933 based on the average of the reported high and low prices of the Registrant's common stock reported on the New York Stock Exchange on April 12, 2006, which was \$12.45.
- (3) \$8,425.85 was previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. Neither we nor the selling shareholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

Subject to Completion dated April 28, 2006

PROSPECTUS

**5,635,344 Shares
Common Stock**

We are offering 5,000,000 shares of common stock and the selling shareholders identified in this prospectus are offering 635,344 shares of common stock. We will not receive any proceeds from the sale of shares by the selling shareholders.

Our common stock is traded on the New York Stock Exchange, or NYSE, under the symbol RLH. On April 27, 2006, the last reported sale price of our common stock on that exchange was \$12.05 per share.

**Investing in our common stock involves risks.
Please read Risk Factors beginning on page 15 of this prospectus.**

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to Red Lion Hotels Corporation	\$	\$
Proceeds to the selling shareholders	\$	\$

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of the disclosures in this prospectus. Any representation to the contrary is a criminal offense.

We have granted the underwriters a 30-day option to purchase up to an additional 845,302 shares of our common stock to cover over-allotments, if any, at the public offering price per share, less underwriting discounts and commissions.

The underwriters expect to deliver the shares in San Francisco, California, on or about _____, 2006.

JMP Securities

Thomas Weisel Partners LLC

Robert W. Baird & Co.

Calyon Securities (USA) Inc.

The date of this prospectus is _____, 2006

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. Neither the delivery of this prospectus nor the sale of the common stock offered hereby means that information contained in this prospectus is correct after the date of this prospectus.

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INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The rules of the Securities and Exchange Commission, or SEC, allow us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document filed with the SEC. Any information referred to in this way is considered part of this prospectus from the date we file that document.

We incorporate by reference into this prospectus the documents and information referred to under the heading **Incorporation of Certain Information by Reference** on page 63 of this prospectus, as well as certain additional documents that we may hereafter file.

The documents incorporated by reference in this prospectus and, in particular, our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, contain important information about us.

Any reports filed by us with the SEC after the date of this prospectus and before the date that the offering of the securities by means of this prospectus is terminated will automatically update and, where applicable, supersede any information contained, or incorporated by reference, in this prospectus.

You should read **Incorporation of Certain Information by Reference** on page 63 of this prospectus for information about how to obtain the documents incorporated by reference.

In this prospectus **we, us, our, ours** and **our company** refer to Red Lion Hotels Corporation and, as the context requires, its wholly and partially owned subsidiaries.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by and should be read in conjunction with the more detailed information and consolidated financial statements and notes thereto included or incorporated by reference in this prospectus. Before you decide to invest in our common stock, you should read the entire prospectus carefully, including the risk factors included in this prospectus, as well as our consolidated financial statements and related notes and other information incorporated by reference in this prospectus. Unless otherwise specified, the information in this prospectus assumes that the underwriters' over-allotment option is not exercised and assumes a stock price of \$12.05, which was the last reported sale price of our common stock on the NYSE on April 27, 2006. Unless otherwise specified, the information contained in this prospectus is as of December 31, 2005. Reference to our hotels and our system-wide hotels includes hotels that we lease, franchise and manage, and nothing in this prospectus shall imply that we own all such hotels.

Our Company

We are a NYSE-listed hospitality and leisure company primarily engaged in the ownership, operation and franchising of midscale and upscale full service hotels under our proprietary Red Lion brand. As of March 31, 2006, our hotel system contained 61 hotels located in 10 states and one Canadian province, with 10,687 rooms and 521,537 square feet of meeting space. Of these 61 hotels, we (i) operated 34 hotels, 21 of which were owned and 13 of which were leased, (ii) franchised 26 hotels to various franchisees and (iii) managed one hotel owned by a third party.

Brand and Lodging Description

The Red Lion brand was established more than thirty years ago and is associated with full service hotels offering high-quality lodging, extensive meeting facilities and superior food and beverage operations. We also deliver personalized service to our customers and offer contemporary and well-appointed guestrooms. Our focus on customer service and brand touch-points attracts a well-balanced customer base, including group, business and leisure travelers.

The Red Lion brand is well recognized in the western United States and well regarded by our guests. Consumers consistently identify the Red Lion brand and the personalized service it represents when asked to indicate their full service lodging preferences. To position Red Lion for its next phase of growth, we are continuing to build upon this strong brand presence by making significant investments in our hotel product, revitalizing our brand image, and enhancing our services and standards.

Business Strategy

In 2004 and 2005, we dedicated significant resources to several key brand initiatives. We launched an extensive hotel renovation plan, enhanced our technology infrastructure, introduced our revitalized brand image, changed our corporate name, and announced an aggressive five-year growth plan to double the number of markets in which Red Lion has a presence from 50 to 100.

In 2006 and beyond, we intend to build on the momentum we have created and continue the implementation of our revitalization strategies. We are committed to completing our renovation plan, continuing our expansion program, and ensuring that Red Lion remains a preferred hotel brand for guests, owners and investors. We are also committed to optimizing our capital structure and improving our financial flexibility by reducing our leverage.

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Growth Strategy

We intend to deliver internal and external growth and drive shareholder value through the following key initiatives:

- grow average daily rate, or ADR, and occupancy through our significant renovation program;
- expand our network of hotels by establishing brand penetration in a hub and spoke pattern;
- increase ADR and occupancy by leveraging new operational and infrastructure initiatives;
- maximize the value of our owned hotel and real estate portfolio by capitalizing on market opportunities; and
- increase flexibility by optimizing our capital structure.

Largest renovation program in company history

We are currently in the final stages of the most significant capital investment program in our history in order to improve comfort, freshen décor and upgrade technology at 31 of our owned and leased hotels. In 2005 we invested approximately \$19.6 million into our owned and leased hotels, and during 2006 we expect to spend an additional \$32 million on capital improvements. The capital improvements are being funded primarily from cash on hand and the net proceeds received from divestiture of non-core assets. We believe the initial results of this program have been positive, as evidenced by the strong operating performance in the fourth quarter of 2005 for three of our hotels where renovations were substantially complete. Revenue per available room, or RevPAR, at these hotels during the fourth quarter of 2005 increased 14.5% on average as compared to the fourth quarter of 2004, driven by an increase of 9.4% in ADR, and a 2.7 percentage point increase in occupancy.

At March 31, 2006, we had substantially completed room renovations at 11 of the 31 owned and leased hotels. We expect to complete our room renovation program for all 31 owned and leased hotels by mid 2006 in time for our peak travel season. We believe these renovations will further increase our appeal to our guests and improve operating results at our renovated hotels.

We have continued to operate the hotels during the renovation process, which has limited our ability to maximize occupancy and room rates at these properties. As a result, operating performance at hotels under renovation has been negatively impacted during the renovation process. However, as evidenced by average RevPAR growth of 14.5% for the three renovated hotels in the fourth quarter of 2005, we believe that our capital investment will improve our operating results as measured by RevPAR and earnings before interest, taxes, depreciation and amortization, or EBITDA.

Establish brand penetration in a hub and spoke pattern

Over the next five years we intend to significantly expand the number of hotels under the Red Lion brand. Initially, we plan to concentrate on growth in the western United States and Canada by pursuing a hub and spoke strategy, where we establish a strong presence in certain major metropolitan cities and expand into adjoining markets. Thereafter, we intend to progressively expand eastward, building on the momentum created by our established western base. By growing the name recognition of the Red Lion brand and correspondingly increasing our customer base, we believe we can increase RevPAR across our hotel system. We have set forth below our strategy for accomplishing our external growth initiatives.

Hotel acquisitions and equity investments. We intend to selectively make joint venture investments or acquire hotels located in major metropolitan cities. We believe that having equity interests in such hotels will allow us to exercise operational control of the hotels to maximize our brand image in highly visible markets. San Francisco, Los Angeles, Phoenix and Dallas are examples of hub markets we are targeting for expansion. We will evaluate investment opportunities based upon a number of factors, including price, strategic fit, potential profitability and geographic distribution.

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Franchise the Red Lion brand. We plan to leverage our brand awareness in the western United States to expand our presence through franchising in primary and secondary markets. We believe that this strategy will allow us to continue to expand our geographic coverage without requiring significant capital investment, resulting in increased revenues and profitability. We believe our brand represents an attractive conversion opportunity for hotel owners in markets where competing hotel companies have saturated the market with their multiple brands. Our single focus on the Red Lion brand offers potential franchisees a brand identity and full service alternative with a distinctive product and an attractive fee structure.

To facilitate our franchising efforts, we recently named a Vice President of Brand Development to focus solely on expanding the Red Lion brand with high-quality, creditworthy franchisees. We believe we are well positioned to integrate new franchisees into our hotel system in view of the scalable operational infrastructure we have implemented in recent years.

Implementation of new operational and infrastructure initiatives

To accomplish the goals of delivering consistently high-quality service to our guests and establishing a scalable foundation for future growth, we have implemented a number of key initiatives. During the past three years, we have (i) enhanced service standards, (ii) developed innovative marketing programs, (iii) implemented state of the art technology, and (iv) revitalized our brand image.

Enhanced service standards. We have implemented a new service standard and training program called The Red Lion Way, which is designed to provide Red Lion employees more tools to create a positive, memorable guest experience. We believe our enhanced service standards will appeal to our guests and increase brand loyalty, resulting in improved revenues.

Innovative marketing programs. The following are some of our marketing initiatives:

GuestAwards loyalty program. Our loyalty program allows guests to accumulate points that are redeemable for complimentary hotel stays, air miles, car rentals, merchandise, entertainment and other incentives, including stays at our redemption partner hotels. We believe the diverse and appealing redemption options available to our GuestAwards members builds guest loyalty.

Net4Guests. Our Net4Guests program provides all hotel guests in our owned and leased hotels access to free high-speed wireless internet. We believe a unique feature of our Net4Guests program is that GuestAwards loyalty program members can use our hotels as a hot spot at anytime, even if they are not staying at the hotel.

Stay Comfortable advertising campaign. Our advertising campaign is designed to increase awareness of the brand and our product upgrades.

We Promise or We Pay . Our We Promise or We Pay program encourages guests to reserve rooms on www.redlion.com through one of the most aggressive rate guarantee programs in the industry. Guests are guaranteed that they will not find a lower room rate than that offered on our branded website at any non-opaque third party website such as Expedia.com, Travelocity.com or Orbitz.com.

State of the art technology

Proprietary website. In September 2005, we launched www.redlion.com, a feature-filled and technologically advanced proprietary website that allows users to view our hotel portfolio; compare our room rates with those available at other websites; reserve rooms; obtain account information and redeem awards for our GuestAwards loyalty program; and utilize click-to-call technology to obtain information regarding our hotels and facilities. The initial results have been positive, and reservations booked on our website in the fourth quarter of 2005 were 32% higher than in the fourth quarter of 2004. We believe that the most cost-effective method for securing internet room reservations is through our website, because that eliminates the fees otherwise paid to third

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parties. Any resulting increase in the volume of reservations booked through our website would further improve our operating margins.

Central reservation system. We recently implemented a state-of-the-art central reservations platform that seamlessly interfaces with all electronic distribution channels. We believe this system increases our exposure to potential guests and expands our opportunity to capture incremental revenue from consumers who book travel electronically.

Revitalized brand image. In September 2005, we introduced a new logo and brand identity with a contemporary design to better reflect our upgraded hotel product and to position Red Lion as a preferred hotel brand for guests, owners and investors.

Maximize the value of our owned hotel and real estate portfolio

We continuously review our owned hotel and real estate portfolio for opportunities to maximize profitability and effectively redeploy capital. In November 2004, we announced our plan to divest 11 of our non-strategic owned hotels, one of our commercial buildings and certain other non-core properties. As of March 31, 2006, we had completed the sale of eight of these hotels, the commercial building, and other identified assets, raising approximately \$58.3 million of aggregate gross proceeds. We are using the proceeds to reduce debt and fund our renovation program.

We also strive to maximize the value of our real estate portfolio through redevelopment. We believe opportunities may exist to redevelop certain of our properties which are located in resort areas and in urban markets that have recently experienced significant growth.

Increase flexibility and improve capital markets profile

Our financial strategy is designed to support our business strategy. Our goal is to have a flexible capital structure that supports our growth initiatives. We intend to use a majority of the net proceeds to us from this offering to significantly reduce our leverage. Following the application of the net proceeds from this offering, we believe we will be well positioned to obtain an expanded line of credit, which we believe will increase our financial flexibility and facilitate our growth initiatives.

We expect that this offering will attract a significant number of new shareholders to our company and considerably diversify our shareholder base. We believe that our improved capital markets profile will increase the financial services community's familiarity with Red Lion, which will allow us to achieve greater financial flexibility in the future.

Summary of Risk Factors

There are a number of material risks that could prevent us from successfully implementing the foregoing growth strategy initiatives or harm our results of operations and financial condition, including the following, among others: certain conditions could decrease the demand for hotel rooms, such as adverse changes in the economic climate, natural disasters, actual or threatened terrorist attacks or international conflicts or increased competition in the industry;

we may be unsuccessful in obtaining new franchise or management arrangements, financing hotel acquisitions or profitably integrating new hotels into our operations, or our existing franchisees may terminate or fail to renew their relationship with us;

demand for our hotels may decrease or the value of our name, image or brand may diminish;

if revenues decline, the expenses of our owned hotels are likely to remain constant or increase resulting in a disproportionately higher decrease in our earnings;

due to the geographic concentration of the hotels in our system, our results of operations and financial condition are subject to fluctuations in regional economic conditions;

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we may lose a member of our senior management team;

the cost of energy, insurance, healthcare coverage or other operating expenses may increase, or our performance may be adversely impacted by rising interest rates, higher taxes or increased government regulation;

we may be unsuccessful in obtaining the financing required to implement our growth strategies; and

there may be an increase in the use of third-party travel websites by our customers, which could result in increased costs to us.

For details about the risks facing us, see **Risk Factors** beginning on page 15 of this prospectus.

Competitive Strengths

Experienced senior management team

We have an experienced senior management team led by our President and Chief Executive Officer, Arthur M. Coffey, who has been with the company for 25 years. Our executive committee members have on average more than 20 years of hospitality industry experience. The balance of our senior management team has strengths in key areas, including hotel development, ownership and management; finance; e-commerce; franchising; sales and marketing; food and beverage management; entertainment and real estate. Their extensive and diverse expertise provides us with a broad perspective from which we can make strategic management and operational decisions.

Strong proprietary brand and long operating history

The Red Lion brand, which we believe projects comfort, value and memorable experiences for our hotel guests, has been well known in the western United States for more than 30 years. As the owner and operator of many of our hotels, we have been able to control brand standards across the system. In addition, as the owner of the Red Lion brand, we have diversified our revenue base by franchising the brand to third-party hotel owners.

Strong value proposition

Our Red Lion brand is associated with high-quality lodging, extensive meeting facilities and superior food and beverage operations. Our hotels provide exceptional and friendly service and accommodations at competitive prices within the markets we serve. We seek to ensure consistent quality across our hotel portfolio, offering valuable services such as dining, fitness centers, business services and other ancillary services. In addition, our guest room standards include products that are important to both leisure and business travelers, including free wireless high-speed internet service, comfortable work space and high-quality furnishings, including new pillow-top beds.

We believe we are well positioned against other hotel owners and operators in the midscale and upscale full service segments of the lodging industry. In our **hub** markets, we believe our primary competitors include Crowne Plaza[®], Doubletree[®], Four Points[®], Radisson[®], Hilton[®] and Marriott[®]. In our secondary markets, we believe our competitors include Courtyard[®], Holiday Inn[®] and Hilton Garden Inn[®].

Attractiveness to franchisees

We offer a strong support system to our franchisees by providing a full suite of franchise services, including (i) central reservations, (ii) revenue management, (iii) national and regional sales, (iv) marketing, (v) systems, operations and customer service training, (vi) corporate purchasing programs and (vii) quality evaluations. As such, our Red Lion brand is attractive to potential franchisees by offering a distinctive product valued by customers, backed by a full suite of support services. During 2005, approximately 36% of our system-wide total room revenues were delivered through our reservation channels and our national and regional sales. We believe that our reservation systems and sales and marketing initiatives are of great benefit to hotel owners who may not have the financial or operating resources to efficiently absorb the high fixed costs associated with the development of their own systems.

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Strong emphasis on customer service

We continually challenge ourselves to maintain and maximize customer service. As a result, in 2005 we created and implemented a new service standard and training program called The Red Lion Way, which is designed to provide Red Lion employees more tools to create a positive and memorable guest experience. Through this increased level of personal service, we believe we differentiate Red Lion from our competitors.

Well positioned to capitalize on industry-wide growth

We believe we are well positioned to capitalize on the expected continued improvement in lodging industry supply and demand fundamentals, as discussed in Lodging Industry Outlook below. We believe our newly renovated hotel portfolio combined with our enhanced service standards will appeal to our guests and allow us to capture a significant portion of the increasing demand for lodging facilities in our markets. To date, we have been successful in attracting new guests and increasing room rates as evidenced by the consistent RevPAR growth we have experienced in each of our last eight consecutive quarters.

Recent Developments

Revised revolving credit facility

On March 27, 2006, we entered into a revised agreement with Wells Fargo Bank, N.A. providing for a revolving credit facility with a total of \$10 million in borrowing capacity for working capital purposes. The facility consists of a two-year \$6 million line of credit secured by two hotels and a one-year \$4 million line of credit secured by personal property.

Non-core asset sales

In 2005, we completed the sale of seven hotels and a commercial building. In the first quarter of 2006 we completed the sale of the Red Lion Hillsboro and the Executive Court portion of the WestCoast Ridpath Hotel. By March 31, 2006, closings under our property disposition plan yielded aggregate gross proceeds of approximately \$58.3 million. We have utilized the net proceeds to pay off approximately \$18.1 million of associated debt, and substantially fund our hotel renovation program. We continue to actively pursue disposition of the remaining three hotels originally identified for sale.

Exchange of partnership units for common stock

We are the general partner and at March 31, 2006 held a 98.9% interest in Red Lion Hotels Limited Partnership, or the Partnership. The limited partners of the Partnership, who at March 31, 2006 currently hold 142,663 operating partnership units, or OP Units, have the right to put those OP Units to the Partnership, in which event either (a) the Partnership must redeem the units for cash, or (b) we, as general partner, may elect to acquire the OP units for cash or in exchange for a like number of shares of our common stock.

In the first quarter of 2006, we elected to issue 143,498 shares of our common stock in exchange for a like number of OP Units that certain former limited partners put to the Partnership. We granted one of these former limited partners registration rights with respect to the 135,344 shares it received which it has waived because it is participating in this offering as a selling shareholder. We do not expect that the issuance of this common stock will materially affect our per share operating results.

Sale of real estate management business

On April 11, 2006, we entered into an agreement to divest on a tax-free basis the real estate management portion of our real estate division to Thomas Barbieri, a former company executive and the brother of two members of our board of directors, and David Peterson, the longtime head of our real estate division. The transaction, which was approved unanimously by our independent directors, is expected to close by the end of April 2006. The new entity will continue to manage our office and retail real estate assets after the sale, including Lincoln Plaza in Spokane and the Kalispell Center in Montana. We believe this transaction will allow us to further focus our efforts on our core lodging operations.

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We believe the U.S. hotel industry and our hotel portfolio are in a recovery phase following a pronounced downturn. We believe improving industry fundamentals, with demand outpacing supply, will lead to improved operating performance at our hotels. The following is excerpted from PricewaterhouseCoopers U.S. Lodging Industry Briefing Presented to Corporate Travel World, April 3, 2006:

Rebound in lodging demand. Following the industry downturn, which began in 2001, lodging demand, measured by average daily rooms sold, increased by 0.3% in 2002, 1.4% in 2003, 4.2% in 2004 and 3.3% in 2005. It is projected that lodging demand will increase by 2.9% in 2006 and 2.8% in 2007.

Limited new supply. New lodging supply increased by 1.6% in 2002, 1.1% in 2003, 0.6% in 2004 and 0.4% in 2005. It is projected that lodging supply will increase by 1.1% in 2006 and 2.0% in 2007.

Improving operating performance. The current favorable supply and demand environment is expected to result in continued improvement of industry operating fundamentals. RevPAR for the industry decreased by 2.7% in 2002, but increased by 0.4% in 2003, 7.8% in 2004 and 8.4% in 2005. It is projected that RevPAR will increase by 7.7% in 2006 and 6.1% in 2007.

Business Segments

As of December 31, 2005, we operated in the four reportable business segments set forth in the chart below. We focus primarily on the hotels and franchise and management segments because we believe our core strengths are in the areas of hotel operation, ownership and franchising. We also believe the strongest opportunity to increase our revenues will be through leveraging our lodging expertise and concentrating our efforts on our hospitality-related business segments.

Business Segment	Percent of 2005 Revenues	Segment Description
Hotels	89%	Revenue is derived primarily from guest room rentals and food and beverage operations at our owned and leased hotels.
Franchise and management	2%	Revenue is generated from franchise fees that are typically based on a percent of room revenues. Franchise fees are charged to hotel owners in exchange for the use of our brands and access to our central services programs. Revenue is also derived from management fees charged to the owners of our managed hotels. Management fees are typically based on a percentage of the hotel's gross revenues, plus an incentive fee based on operating performance.
Entertainment	6%	Ticketing services; promotion and presentation of entertainment productions.
Real estate	3%	Owning, leasing, managing and developing commercial retail, office and multi-residential properties.

For additional segment information, please refer to **Business Segments** in the notes to our consolidated financial statements incorporated by reference in this prospectus.

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Hotel Portfolio Summary

Owned, Leased, Managed and Franchised Hotels as of March 31, 2006

	Number of Hotels	Number of Rooms	Percentage of Rooms	Meeting Space (Square Feet)
Owned	21	4,228	39.6%	227,880
Leased	13	2,183	20.4%	99,856
Managed	1	254	2.4%	36,000
Franchised	26	4,022	37.6%	157,801
Total	61	10,687	100.0%	521,537

Hotel Locations

Hotels on the following map represent the locations of our owned, leased, managed and franchised hotels, as of March 31, 2006. We have multiple hotels in certain cities identified below.

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Geographic Distribution of Hotel System by Number of Rooms (as of March 31, 2006)

Company History

Our predecessor entered the hotel development and management business in 1976. As its successor company, we were incorporated in the State of Washington on April 25, 1978. We grew our hotel business under the brand name Cavanaugh's throughout the 1980s and 1990s.

Significant corporate events

Initial public offering. In April 1998, we completed the initial public offering of our common stock as Cavanaugh's Hospitality Corporation, and listed our common stock on the NYSE.

Acquisition of WestCoast Hotels. We acquired WestCoast Hotels, Inc. on December 31, 1999, which added 27 hotels and more than 4,800 rooms in 20 cities to our system of hotels, enhanced our presence in a number of western markets, and launched our company into the franchise business. Our company changed its name to WestCoast Hospitality Corporation in early 2000.

Acquisition of Red Lion Hotels, Inc. On December 31, 2001, we acquired Red Lion Hotels, Inc., which added 47 hotels and more than 7,400 rooms in 40 cities to our system of hotels and further enhanced our presence in a number of western markets.

Rebranding of WestCoast Hotels to the Red Lion brand. During the first quarter of 2003, we rebranded 22 WestCoast Hotels to the Red Lion brand and launched a new central reservations system.

Largest renovation program in our history. We are in the final stages of completing the most significant capital investment program in our company's history, initially announced in November 2004, to improve comfort, freshen décor and upgrade technology at 31 of our owned and leased hotels.

Name change to Red Lion Hotels Corporation. In September 2005, we changed our name to Red Lion Hotels Corporation to convey our focus on the Red Lion brand, and concurrently launched our new Red Lion brand image campaign, website and corporate logo.

Our Principal Office

Our corporate headquarters are located at 201 W. North River Drive, Suite 100, Spokane, Washington 99201 and our telephone number is (509) 459-6100. We maintain an internet website at www.redlion.com. Information on our website is not incorporated into this prospectus, and you should not consider it part of this prospectus.

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THE OFFERING

Common stock offered by us	5,000,000 shares
Common stock offered by selling shareholders	635,344 shares
Total common stock to be outstanding after this offering(1)	18,299,022 shares
Use of proceeds	<p>We intend to use approximately \$16.9 million of the net proceeds to us from this offering to fund the mandatory redemption of \$16.1 million of the outstanding 9.5% trust preferred securities of Red Lion Hotels Capital Trust at a required 5% premium over par.</p> <p>We intend to use up to \$34.5 million of the remaining net proceeds to us to reduce existing secured debt and pay associated defeasance costs.</p> <p>We intend to use the remaining net proceeds to us for general corporate purposes.</p>
Net proceeds	<p>The estimated net proceeds of this offering to us will be approximately \$56.4 million (after deducting estimated underwriting discounts and commissions and the offering expenses payable by us) based on an assumed offering price of \$12.05 per share, the last reported sale price of our common stock on the NYSE on April 27, 2006. We will not receive any proceeds from the sale of common stock by the selling shareholders.</p>
NYSE Symbol	RLH
Risk Factors	<p>See Risk Factors beginning on page 15 and the other information included or incorporated by reference in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.</p>

- (1) The number of shares of common stock to be offered assumes that the underwriters' over-allotment option is not exercised. The number of shares of our common stock that will be outstanding after this offering is based on 13,299,022 shares outstanding as of March 31, 2006 and excludes:
- 1,206,489 shares of common stock issuable upon the exercise of outstanding stock options with a weighted average exercise price of \$6.64 per share;
 - 11,121 shares of restricted common stock held by one of our executive officers;
 - 1,081,865 shares of common stock available for issuance pursuant to awards that may be granted in the future under our equity incentive plans for officers, directors, employees and consultants;
 - 142,663 shares of common stock that may be issued in exchange for a like number of OP Units, if the holders of such OP units elect to have them redeemed by the Partnership; and
 - shares of common stock that may be issued pursuant to certain of our bonds, the principal and accrued interest of which are convertible into common stock at \$15.00 per share (the principal and accrued interest of these bonds totaled \$3,270,787 at March 31, 2006).

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The following table sets forth our summary consolidated financial and operations data. The summary consolidated operations data for each of the five years ended December 31, 2005, and the balance sheet data as of December 31, 2005, 2004, 2003, 2002 and 2001, are derived from our audited consolidated financial statements and related notes. Results for past periods are not necessarily indicative of results that may be expected for future periods. The summary consolidated financial and operations data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere and incorporated by reference in this prospectus and our consolidated financial statements and related notes incorporated by reference into this prospectus.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(In thousands, except per share data)				
Consolidated operations data:(1)					
Revenue	\$ 165,048	\$ 163,143	\$ 157,528	\$ 166,246	\$ 95,828
Operating expenses(2)	153,437	151,895	146,568	146,251	78,898
Operating income	\$ 11,611	\$ 11,248	\$ 10,960	\$ 19,995	\$ 16,930
Net income (loss) from continuing operations	\$ (1,144)	\$ (890)	\$ 1,560	\$ 7,083	\$ 6,372
Income (loss) from discontinued operations	5,639	(5,395)	(341)	924	1,207
Net income (loss)	\$ 4,495	\$ (6,285)	\$ 1,219	\$ 8,007	\$ 7,579
Income (loss) applicable to common shareholders(3)	\$ 4,495	\$ (6,662)	\$ (1,321)	\$ 5,430	\$ 7,579
Earnings (loss) per common share basic:					
Continuing operations	\$ (0.09)	\$ (0.10)	\$ (0.07)	\$ 0.35	\$ 0.50
Discontinued operations	0.43	(0.41)	(0.03)	0.07	0.09
	\$ 0.34	\$ (0.51)	\$ (0.10)	\$ 0.42	\$ 0.59
Earnings (loss) per common share diluted:					
Continuing operations	\$ (0.09)	\$ (0.10)	\$ (0.07)	\$ 0.34	\$ 0.50
Discontinued operations	0.43	(0.41)	(0.03)	0.07	0.09
	\$ 0.34	\$ (0.51)	\$ (0.10)	\$ 0.41	\$ 0.59
Weighted average shares outstanding basic	13,105	13,049	12,999	12,975	12,953
Weighted average shares outstanding diluted	13,105	13,049	12,999	13,285	13,239
EBITDA(4)(5)	\$ 33,945	\$ 18,268	\$ 25,269	\$ 33,610	\$ 35,352
EBITDA from continuing operations(4)	\$ 23,939	\$ 22,602	\$ 21,628	\$ 29,212	\$ 30,048

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	December 31,				
	2005	2004	2003	2002	2001
	(In thousands, except per share data)				
Consolidated balance sheet data:					
Working capital(6)	\$ 22,693	\$ 2,147	\$ 729	\$ (9,094)	\$ (6,373)
Assets of discontinued operations	\$ 20,217	\$ 61,757	\$ 63,349	\$ 64,049	\$ 65,302
Property and equipment, net	\$ 235,444	\$ 223,132	\$ 204,199	\$ 193,451	\$ 209,157
Total assets	\$ 355,596	\$ 364,612	\$ 353,225	\$ 356,710	\$ 359,649
Liabilities of discontinued operations	\$ 3,089	\$ 22,879	\$ 23,580	\$ 17,548	\$ 18,419
Total long-term debt and capital lease obligations	\$ 130,364	\$ 133,211	\$ 128,687	\$ 89,788	\$ 100,304
Debentures due Red Lion Hotels Capital Trust	\$ 47,423	\$ 47,423	\$	\$	\$
Total liabilities	\$ 234,349	\$ 248,225	\$ 201,036	\$ 202,594	\$ 210,834
Preferred stock and related additional paid-in capital	\$	\$	\$ 29,412	\$ 30,131	\$ 30,377
Total stockholders equity	\$ 121,247	\$ 116,387	\$ 152,189	\$ 154,116	\$ 148,815

- (1) The consolidated balance sheet data reflect the acquisition of Red Lion Hotels, Inc. as of December 31, 2001. The results of operations for that entity are included in the consolidated operations data beginning the day of the acquisition going forward. The comparability of the data is also affected by a change in accounting for goodwill amortization beginning with the year ended December 31, 2002. The activities and balance sheet of discontinued operations have been reflected on a comparable basis for all years presented.
- (2) Operating expenses include all direct segment expenses, depreciation and amortization, gain or loss on asset dispositions, hotel facility and land lease, undistributed corporate expenses, and conversion expenses, if any.
- (3) Net income or loss applicable to common shareholders represents net income less earned dividends on preferred stock, if applicable for the period presented.
- (4) EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA is not intended to represent net income as defined by generally accepted accounting principles in the United States and such information should not be considered as an alternative to net income, cash flows from operations or any other measure of performance prescribed by generally accepted accounting principles in the United States.
- (5) In 2005 the balance includes a gain on the sale of seven hotels and an office building of \$10.2 million and a non-cash impairment charge of \$4.5 million on four hotels. In 2004 the balance includes a non-cash impairment charge of \$8.9 million on four hotels.
- (6) Represents current assets less current liabilities, excluding assets and liabilities of discontinued operations and assets held for sale.

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The following is a reconciliation of our EBITDA to net income (loss) as presented in our consolidated statements of operations for the periods presented:

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(In thousands)				
EBITDA from continuing operations	\$ 23,939	\$ 22,602	\$ 21,628	\$ 29,212	\$ 30,048
Income tax benefit (expense) continuing operations	996	876	(51)	(3,860)	(3,788)
Interest expense continuing operations	(14,352)	(13,828)	(9,679)	(9,389)	(10,667)
Depreciation and amortization continuing operations	(11,727)	(10,540)	(10,338)	(8,880)	(9,221)
Net income (loss) from continuing operations	(1,144)	(890)	1,560	7,083	6,372
Income (loss) on discontinued operations	5,639	(5,395)	(341)	924	1,207
Net income (loss)	\$ 4,495	\$ (6,285)	\$ 1,219	\$ 8,007	\$ 7,579
EBITDA(1)(2)	\$ 33,945	\$ 18,268	\$ 25,269	\$ 33,610	\$ 35,352
Income tax benefit (expense)	(2,082)	3,781	132	(4,369)	(4,503)
Interest expense	(15,519)	(15,507)	(11,150)	(10,717)	(12,092)
Depreciation and amortization	(11,849)	(12,827)	(13,032)	(10,517)	(10,323)
Amortization of goodwill					(855)
Net income (loss)	\$ 4,495	\$ (6,285)	\$ 1,219	\$ 8,007	\$ 7,579

- (1) In 2005 the balance includes a gain on the sale of seven hotels and an office building of \$10.2 million and a non-cash impairment charge of \$4.5 million on four hotels. In 2004 the balance includes a non-cash impairment charge of \$8.9 million on four hotels.
- (2) The reconciling items from EBITDA to net income (loss) include the income taxes, interest expense, depreciation and amortization of discontinued operations and therefore cannot be readily derived from the disclosure presented on our consolidated statements of operations. Please refer to Note 3 to our consolidated financial statements incorporated by reference in this prospectus for disclosure of the corresponding line items included in calculating the net income (loss) on discontinued operations.

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	Three Months Ended March 31, 2006			Three Months Ended March 31, 2005		
	Average Occupancy (2)	ADR	RevPAR	Average Occupancy (2)	ADR	RevPAR
Owned and Leased Hotels:						
Continuing Operations	51.3%	\$ 73.84	\$ 37.90	54.0%	\$ 67.33	\$ 36.37
Discontinued Operations	28.8%	\$ 59.32	\$ 17.08	30.6%	\$ 56.80	\$ 17.38
Combined Owned and Leased Hotels	49.1%	\$ 73.02	\$ 35.88	51.5%	\$ 66.66	\$ 34.33
System-wide(3)	51.5%	\$ 74.98	\$ 38.65	52.0%	\$ 68.34	\$ 35.55
Red Lion Hotels(4)	52.9%	\$ 74.16	\$ 39.25	53.2%	\$ 67.60	\$ 35.96

- (1) Includes all hotels owned, leased, managed and franchised by us for each of the periods presented.
- (2) The total available rooms used to calculate average occupancy includes rooms taken out of service for renovation.
- (3) Includes all hotels owned, leased, managed and franchised by us for greater than one year. Includes three hotels classified as discontinued operations.
- (4) Includes all hotels owned, leased, managed and franchised by us for greater than one year that are operated under the Red Lion brand name. Includes one hotel classified as discontinued operations.

Hospitality Industry Performance Measures and Definitions

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

Total available rooms represents the number of rooms available multiplied by the number of days in the reported period. We use total available rooms as a measure of capacity in our system of hotels. We do not adjust total available rooms for rooms temporarily out of service for remodel or other short-term periods.

Average occupancy represents total paid rooms occupied divided by total available rooms. We use average occupancy as a measure of the utilization of capacity in our system of hotels.

Revenue per available room, or RevPAR, represents total room and related revenues divided by total available rooms. We use RevPAR as a measure of performance yield in our system of hotels.

Average daily rate, or ADR, represents total room revenues divided by the total number of paid rooms occupied by hotel guests. We use ADR as a measure of room pricing in our system of hotels.

Comparable hotels are hotels that have been owned, leased, managed or franchised by us for each of the periods presented.

Throughout this prospectus, unless otherwise stated, RevPAR, ADR and average occupancy statistics are calculated using statistics for comparable hotels. When presented in this prospectus, the above performance measures will be identified as belonging to a particular market segment, system-wide, or for continuing operations versus discontinued operations or total combined operations.

Unless otherwise indicated, industry statistics are from Smith Travel Research, an independent statistical research service that specializes in the lodging industry. Some of the terms used in this prospectus, such as full service, upscale and midscale are consistent with Smith Travel Research terms. We are a full service brand. Smith Travel Research categorizes hotels into seven chain scales. Our hotels are classified by Smith Travel Research in the upscale and midscale with food and beverage chain scales.

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RISK FACTORS

An investment in our common stock presents risks. You should carefully consider the following discussion of risks, and the other information included or incorporated by reference in this prospectus, including our consolidated financial statements and notes thereto, before you decide to buy our common stock. The risks described below are not the only ones facing us. Additional risks that are presently unknown to us or that we currently deem immaterial may also impair our business. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that case, the market price of our common stock could decline, and you may lose all or part of your investment.

Risks relating to our business

Our operating results are subject to conditions affecting the lodging industry.

Our revenues and our operating results are subject to conditions affecting the lodging industry. These include: changes in the national, regional or local economic climate;

actual and threatened terrorist attacks and international conflicts and their impact on travel;

local conditions such as an oversupply of, or a reduction in demand for, hotel rooms;

the attractiveness of the hotels in our system to consumers and competition from other hotels;

the quality, philosophy and performance of the managers of the hotels in our system;

increases in operating costs due to inflation and other factors such as increases in the price of energy, healthcare or insurance;

travelers' fears of exposure to contagious diseases or pest infestation, either perceived or real;

changes in travel patterns, extreme weather conditions and cancellation of or changes in events scheduled to occur in our markets; and

the need to periodically repair and renovate the hotels in our system.

Changes in any of these conditions could adversely impact hotel room demand and pricing, result in reduced occupancy, ADR and RevPAR, or otherwise adversely affect our results of operations and financial condition. We have a limited ability to pass through increased operating costs in the form of higher room rates, so such increased costs could result in lower operating margins.

Our success depends on the value of our name, image and brand; if demand for our hotels decreases or the value of our name, image or brand diminishes, our business and operations would be harmed.

Our success depends, to a large extent, on our ability to shape and stimulate consumer tastes and demands by producing and maintaining innovative, attractive and exciting properties and services, as well as our ability to remain competitive in the areas of design and quality. If we are unable to anticipate and react to changing consumer tastes and demands in a timely manner, our results of operations and financial condition could be harmed.

Furthermore, we believe a high media profile is an integral part of our ability to shape and stimulate demand for our hotels with our target customers. One aspect of our marketing strategy is to focus on attracting media coverage. If we fail to attract that media coverage, we may need to substantially increase our advertising and marketing costs, which would harm our results of operations. In addition, other types of marketing tools, such as traditional advertising and marketing, may not be successful in attracting our target customers.

Our business would be harmed if our public image or reputation were to be diminished by the operations of any of the hotels in our system. Our brand names and trademarks are integral to our marketing efforts. If the value of our name, image or brands were diminished, our business and operations would be harmed.

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Any failure to protect our trademarks could have a negative impact on the value of our brand names.

We believe our trademarks are critical to our success. We rely on trademark laws to protect our proprietary rights. The success of our business depends in part upon our continued ability to use our trademarks to increase brand awareness and further develop our brand. Monitoring the unauthorized use of our intellectual property is difficult. The unauthorized reproduction of our trademarks could diminish the value of our brand and its market acceptance, competitive advantages or goodwill, which could harm our business.

If we are unable to compete successfully, our business may be harmed.

The lodging industry is highly competitive. Competition in the industry is primarily based on service quality, range of services, brand name recognition, convenience of location, room rates, guest amenities and quality of accommodations. We compete with other national limited and full service hotel companies as well as various regional and local hotels. Many of our competitors have a larger network of hotel locations and greater financial resources than we do. Additionally, new and existing competitors may offer significantly lower rates, greater convenience, services or amenities or superior facilities, which could attract customers away from our hotels, resulting in a decrease in occupancy, ADR and RevPAR for our hotels. Changes in demographics and other changes in our markets may also adversely impact the convenience or desirability of our hotel locations, thereby reducing occupancy, ADR and RevPAR at our hotels and otherwise adversely impacting our results of operations and financial condition.

Due to the geographic concentration of the hotels in our system, our results of operations and financial condition are subject to fluctuations in regional economic conditions.

Of the 61 hotels in our system at March 31, 2006, 47 are located in Oregon, Washington, Idaho or Montana. Therefore, our results of operations and financial condition may be significantly affected by the economy of the Pacific Northwest, which is dependent in large part on a limited number of major industries, including agriculture, tourism, technology, timber and aerospace. These industries may be affected by:

changes in governmental regulations and economic conditions;

the relative strength of national and local economies; and

the rate of national and local unemployment.

In addition, companies in these industries may decide to relocate all or part of their businesses outside the Pacific Northwest. Any of these factors could materially affect the local economies in which these industries operate and where we have a presence. Other adverse events affecting the Pacific Northwest, such as economic recessions or natural disasters, could cause a loss of revenues for our hotels in this region, which may be greater as a result of our concentration of assets in these areas. In addition, we operate or market multiple hotels within several markets. A downturn in general economic or other relevant conditions in these specific markets or in any other market in which we operate could lead to a decline in demand in these markets and cause a loss of revenues from these hotels.

Our expenses may remain constant or increase even if revenues decline.

The expenses of owning property are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from a hotel. Accordingly, a decrease in our revenues could result in a disproportionately higher decrease in our earnings because our expenses are unlikely to decrease proportionately. In such instances, our financial condition and ability to service debt could be harmed by:

interest rate levels;

the availability of financing;

the cost of compliance with government regulations, including zoning and tax laws; and

changes in government regulations, including those governing usage, zoning and taxes.

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The illiquidity of real estate investments and the lack of alternative uses of hotel properties could significantly limit our ability to respond to adverse changes in the performance of our hotels and harm our financial condition.

Real estate investments are relatively illiquid and, therefore, our ability to promptly sell one or more of our hotels in response to changing economic, financial or investment conditions is limited. The real estate market, including the market for our hotels, is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. If we decide to sell one or more of our hotels, we may be unable to do so and, even if we are able to sell the hotels, it may take us a long time to find willing purchasers and the sales may be on unfavorable terms. We also may be required to expend funds to correct defects or to make improvements before a hotel can be sold. If we do not have funds available for such purposes, our ability to sell the hotel could be restricted or the price at which we can sell the hotel may be less than if these improvements were made.

In addition, it may be difficult or impossible to convert hotels to alternative uses if they become unprofitable due to competition, age of improvements, decreased demand or other factors. The conversion of a hotel to an alternative use would also generally require substantial capital expenditures.

This inability to respond promptly to changes in the performance of our hotels could adversely affect our financial condition and results of operations as well as our ability to service debt, including our debentures. In addition, sales of appreciated real property could generate material adverse tax consequences, which may make it disadvantageous for us to sell certain of our hotels.

If we are unable to effectively integrate new hotels into our operations, our results of operations and financial condition may suffer.

We intend to grow our hotel operations partly by acquiring whole or partial interests in hotels. However, we cannot assure you that:

we will be able to successfully integrate these new hotels or new hotel products into our operations;

these new hotels or new hotel products will achieve revenue and profitability levels comparable to our existing hotels; or

to the extent integration occurs, our business will be profitable.

Based on our experience, newly acquired, developed or converted hotels typically begin with lower occupancy and room rates, thereby resulting in lower revenue. Our expansion within our existing markets could adversely affect the financial performance of our existing hotels in those markets and, as a result, negatively impact our overall results of operations. Expansion into new markets may also present operating and marketing challenges that are different from those we currently encounter in our existing markets. Our inability to anticipate all of the changing demands that expanding operations will impose on our management and management information and reservation systems, or our failure to quickly adapt our systems and procedures to the new markets could result in lost revenue and increased expenses and otherwise harm our results of operations and financial condition.

If our franchisees terminate or fail to renew their relationship with our company, our franchise revenue will decline.

As of March 31, 2006, there were 26 hotels in our system that were owned by others and operated under franchise agreements with us. At March 31, 2006, four of those hotels were subject to temporary arrangements that were entered into as part of the sale of the property by us to a third-party and that expire in early 2006. For the other 22 hotels, the franchise agreements generally specify a fixed term and contain various early termination provisions, such as the right to terminate upon notice by paying us a termination fee, or the right to terminate if we fail to contribute a negotiated level of revenue to the franchisee through our reservation systems. We cannot assure you that these agreements will be renewed, or that they will not be terminated prior to the end of their respective terms for any reason, including a default under these agreements. If these

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franchise agreements are not renewed, or are terminated prior to the expiration of their respective terms, the resulting decrease in revenue and loss of market penetration could harm our results of operations and financial condition.

We may be unsuccessful in identifying and completing acquisition opportunities, which could limit our ability to implement our long-term growth strategy and result in significant expenses.

We intend to pursue a full range of growth opportunities, including identifying hotels for acquisition, joint venture, development, management, rebranding and franchising. We compete for growth opportunities with national and regional hospitality companies, some of which have greater name recognition, marketing support, reservation system capacity and financial resources than we do. Our ability to make acquisitions is dependent upon, among other things, our relationships with owners of existing hotels and certain major hotel investors, financing acquisitions and renovations, and successfully integrating new hotels into our operations. We may be unable to find suitable hotels for acquisition, development, management, rebranding or franchising on acceptable terms, or at all. Competition with other hotel companies may increase the cost of acquiring hotels. Even if suitable hotels are identified for acquisition, we may not be able to find lenders or capital partners willing to finance the acquisition of the hotels on acceptable terms or we may incur pursuit costs which are not recoverable. Further, we may not have adequate cash from operations to pursue such growth opportunities. Our failure to compete successfully for acquisitions, to obtain suitable financing for acquisitions we have identified or to attract and maintain relationships with hotel owners and major hotel investors could harm our ability to expand our system of hotels. An inability to implement our growth strategy could limit our ability to grow our revenue base and otherwise harm our results of operations.

Hotel acquisitions could fail to perform in accordance with our expectations, and our hotel development, redevelopment and renovation projects might be more costly than we anticipate.

We intend to acquire additional hotels and we may acquire other operations in the future. We also intend to continue the redevelopment and re-branding of other acquired hotels into Red Lion hotels. Many of our hotels will have an ongoing need for renovations and other capital improvements, some of which will be mandated by applicable laws or regulations or agreements with third parties. In addition, we may develop new hotels in the future, depending on market conditions. Hotel redevelopment, renovation and new project development are subject to a number of risks, including:

construction delays or cost overruns;

possible shortage of cash to fund capital improvements and the related possibility that financing for these capital improvements may not be available to us on affordable terms;

potential environmental problems;

uncertainties as to market demand or a loss of market demand after capital improvements have begun;

disruption in service and room availability causing reduced demand, occupancy and rates;

risks that the hotels will not achieve anticipated performance levels; and

new project commencement risks such as receipt of zoning, occupancy and other required governmental permits and authorizations.

As a result of these risks, we could incur substantial costs for projects that are never completed. Further, financing for these projects may not be available or, even if available, may not be on terms acceptable to us. Any unanticipated delays or expenses incurred in connection with the acquisition, development, redevelopment or renovation of our hotels could impact our expected revenues, negatively affect our reputation among hotel customers, owners and franchisees, and otherwise harm our results of operations and financial condition.

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Risks associated with real estate ownership may adversely affect revenue or increase expenses.

As of March 31, 2006, our hotel system included 61 hotels located in 10 states and one Canadian province, with 10,687 rooms and 521,537 square feet of meeting space. Of these 61 hotels, we (i) operated 34 hotels, 21 of which were owned and 13 of which were leased, (ii) franchised 26 hotels to various franchisees and (iii) managed one hotel owned by a third party. We also own commercial and other properties. Accordingly, we are subject to varying degrees of risk that generally arise from the ownership of real property. Revenue from our hotels and other real estate may be harmed by factors beyond our control, including the following:

changes in national, regional and local economic conditions;

changes in local real estate market conditions;

increases in interest rates, and other changes in the availability, cost and terms of financing and capital leases;

increases in property and other taxes;

the impact of present or future environmental legislation and adverse changes in zoning laws and other regulations; and

compliance with environmental laws.

An increase in interest rates or property and other taxes could increase expenses and adversely affect our cash flow. Adverse conditions such as those discussed above could cause the terms of our borrowings to become unfavorable to us. In such circumstances, if we were in need of capital to repay indebtedness in accordance with its terms or otherwise, we could be required to sell one or more hotels at times that might not permit realization of the maximum return on our investments. Unfavorable changes in one or more of these conditions could also result in unanticipated expenses and higher operating costs, thereby reducing operating margins and otherwise harming our results of operations and financial condition.

Our current or future joint venture arrangements may not reflect solely our best interests and may subject these investments to increased risks.

We hold a 50% interest in the Kalispell Center and Mall as part of a joint venture with an unrelated third party, and we may in the future acquire interests in other properties through joint venture arrangements with other entities. Some of these acquisitions may be financed in whole or in part by loans under which we are jointly and severally liable for the entire loan amount along with the other joint venture partners. The terms of these joint venture arrangements may be more favorable to the other party or parties than to us. In addition, investing in a property through a joint venture arrangement may subject that investment to risks not present with a wholly owned property, including, among others, the following:

the other owner(s) of the investment might become bankrupt;

the other owner(s) may have economic or business interests or goals that are inconsistent with ours;

the other owner(s) may be unable to make required payments on loans under which we are jointly and severally liable;

the other owner(s) may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, such as selling the property at a time when to do so would have adverse consequences to us;

actions by the other owner(s) might subject the property to liabilities in excess of those otherwise contemplated by us; and

it may be difficult for us to sell our interest in the property at the time we deem a sale to be in our best interests.

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The results of some of our individual hotels are significantly impacted by group contract business and other large customers, and the loss of such customers for any reason could harm our operating results.

Group contract business and other large customers, or large events, can significantly impact the results of operations of our hotels. These contracts and customers vary from hotel to hotel and change from time to time. Such contracts are typically for a limited period of time after which they may be eligible for competitive bidding. The impact and timing of large events are not always predictable and are often episodic in nature. The operating results for our hotels can fluctuate as a result of these factors, possibly in adverse ways, and these fluctuations can harm our overall operating results.

Our properties are subject to risks relating to acts of God, terrorist activity, war and other hazards, and any such event could harm our operating results.

Our financial and operating performance may be adversely affected by acts of God, such as natural disasters, particularly in locations where we own and/or operate significant properties. Some types of losses, such as those from earthquake, hurricane, terrorism and environmental hazards, may be either uninsurable or too expensive to justify insuring against. In the event an uninsured loss or a loss in excess of insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Similarly, war (including the potential for war) and terrorist activity (including threats of terrorist activity), epidemics (such as SARS and bird flu), travel-related accidents, as well as geopolitical uncertainty and international conflict, which impact domestic and international travel, have caused in the past, and may cause in the future, our results to differ in adverse ways. Terrorism incidents such as the events of September 11, 2001 and wars such as the Iraq war in 2003 significantly reduce international travel and consequently global demand for hotel rooms. In addition, inadequate preparedness, contingency planning or recovery capability in relation to a major incident or crisis may prevent operational continuity and consequently harm the value of the brand or the reputation of our business.

If we fail to comply with privacy regulations, we could be subject to fines or other restrictions on our business.

We collect and maintain information relating to our guests for various business purposes, including maintaining guest preferences to enhance our customer service and for marketing and promotion purposes and credit card information. The collection and use of personal data are governed by privacy laws and regulations enacted in the U.S. and by various contracts we operate under from time to time. Privacy regulation is an evolving area in which different jurisdictions may subject us to inconsistent compliance requirements. Compliance with applicable privacy regulations may increase our operating costs and/or harm our ability to service our guests and market our products, properties and services to our guests. In addition, non-compliance with applicable privacy regulations by us (or in some circumstances non-compliance by third parties engaged by us) could result in fines or restrictions on our use or transfer of data.

We may have disputes with the owners of the hotels that we manage or franchise.

Consistent with our focus on management and franchising, we do not own all the properties in our system of hotels. The nature of our rights under our management and franchise agreements to manage hotels and/or enforce brand standards may, in some instances, be subject to interpretation and may give rise to disagreements. We seek to resolve disagreements in order to develop and maintain positive relations with current and potential franchisees and joint venture partners; however, we have not always been able to do so. Our failure to resolve such disagreements may result in litigation, arbitration or other dispute resolution proceedings.

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Our hotels may be faced with labor disputes that could harm the operation of our hotels.

We rely heavily on our employees to provide high-quality personal service at our hotels, and any labor dispute or stoppage could harm our ability to provide those services, which could reduce occupancy and room revenue, tarnish our reputation and harm our results of operations.

We are subject to governmental regulations affecting the lodging industry; the costs of complying with governmental regulations, or our failure to comply with such regulations, could harm our financial condition and results of operations.

We are subject to numerous federal, state and local government regulations affecting the lodging industry, including building and zoning requirements. Increased government regulation could require us to make unplanned expenditures and result in higher operating costs. Further, we are subject to laws governing our relationship with employees, including minimum wage requirements, overtime, working conditions and work permit requirements. An increase in the minimum wage rate, employee benefit costs or other costs associated with employees could increase expenses and result in lower operating margins. Under the Americans with Disabilities Act of 1990, or the ADA, all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. We may be required to remove access barriers or make unplanned, substantial modifications to our hotels to comply with the ADA or to comply with other changes in governmental rules and regulations, which could reduce the number of total available rooms, increase operating costs and have a negative impact on revenues and earnings. Any failure to comply with ADA requirements or other governmental regulations could result in the U.S. government imposing fines or in private litigants winning damage awards against us.

Our business is seasonal in nature, and we are likely to experience fluctuations in our results of operations and financial condition.

Our business is seasonal in nature, with the months from May through October generally accounting for a greater portion of our annual revenues than the months from November through April. Therefore, our results for any quarter may not be indicative of the results that may be achieved for the full fiscal year. The seasonal nature of our business increases our vulnerability to risks such as labor force shortages and cash flow problems. Further, if an adverse event such as an actual or threatened terrorist attack, international conflict, regional economic downturn or poor weather conditions should occur during the months of May through October, the adverse impact to our revenues could likely be greater as a result of our seasonal business.

Failure to retain senior management could harm our business.

We place substantial reliance on the lodging industry experience and the institutional knowledge of members of our senior management team. Mr. Coffey, Mr. Narayan and Mr. Taffin are particularly important to our future success due to their substantial experience in the lodging industry, and with the Red Lion brand and our company. The loss of the services of one or more of these members of our senior management team could hinder our ability to effectively manage our business and implement our growth strategies. Finding suitable replacements for Mr. Coffey, Mr. Narayan or Mr. Taffin could be difficult, and competition for such personnel of similar experience is intense. We do not carry key person insurance on any of our senior management team.

If we are unable to locate lessees for our office and retail space our revenues and cash flow may be adversely affected.

We own and lease to others over 375,000 square feet of office and retail space in Spokane, Washington and Kalispell, Montana. We are subject to the risk that leases for this space might not be renewed upon their expiration, the space may not be relet or the terms of renewal or reletting such space (including the cost of required renovations) might be less favorable to us than current lease terms. Vacancies could result due to the termination of a lease, the tenant's financial failure or a breach of the tenant's obligations. We may be unable to locate tenants for rental spaces vacated in the future or we may be limited to renting space on terms

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unfavorable to us. Delays or difficulties in attracting tenants and costs incurred in preparing for tenant occupancy could reduce cash flow, decrease the value of a property and jeopardize our ability to pay our expenses.

We are subject to risks associated with managing and leasing commercial properties owned by third parties.

Until the sale of our real estate management company closes, or in the event the sale does not close, we will continue to manage and lease properties owned by third parties. Risks associated with these activities include the following:

the contracts (which may be cancelable upon relatively short notice or upon major events, including sale of the property) may be terminated by the property owner or expire in connection with a sale of such property;

the contracts might not be renewed upon expiration or might not be renewed on terms as favorable as current terms; and

rental revenues upon which management and leasing fees are based may decline as a result of general real estate market conditions or specific market factors affecting properties managed or leased by us, resulting in decreased management or leasing fee income.

The performance of our entertainment division is particularly subject to fluctuations in economic conditions.

Our entertainment division, which comprised 6% of our total revenues from continuing operations in 2005, engages in event ticketing and the presentation and promotion of various entertainment productions. We have in the past attracted additional hotel guests by cross-selling to them tickets to entertainment events through our TicketsWest subsidiary. Our entertainment division is vulnerable to risks associated with changes in general regional and economic conditions, the potential for significant competition and a change in consumer trends, among other risks. In addition, we face the risk that Broadway shows and other entertainment productions will not tour the Pacific Northwest or that such productions will not choose us as a presenter or promoter.

We face risks relating to litigation.

At any given time, we are subject to claims and actions incidental to the operation of our business. The outcome of these proceedings cannot be predicted. If a plaintiff is successful in a claim against us, we could be exposed to the risk of the payment of a material sum of money and we may not be insured for such a loss. If this were to occur, it could have an adverse effect on our financial condition.

We are subject to environmental risks that could be costly.

Our operating costs may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of compliance with future environmental legislation. Under current federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of contamination from hazardous or toxic substances, or the failure to remediate such contaminated property properly, may adversely affect the ability of the owner of the property to borrow using such property as collateral for a loan or to sell such property. Environmental laws also may impose restrictions on the manner in which a property may be used or transferred or in which businesses may be operated, and may impose remedial or compliance costs. The costs of defending against claims of liability or remediating contaminated property and the cost of complying with environmental laws could have an adverse effect on our results of operations and financial condition. We have not performed Phase II environmental assessments on two of our

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owned properties for which Phase II assessments were recommended, because we determined that any further investigation was not warranted for materiality reasons. We cannot assure you that these properties do not have any environmental risks associated with them. While we have not been notified by any governmental authority, and we have no other knowledge of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental substances in connection with any of our properties, we have not performed Phase I environmental assessments on all of our leased properties. We cannot assure you that we will not discover problems that currently exist, but of which we have no current knowledge that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our existing and future properties will not be affected by the condition of neighboring properties (such as the presence of leaking underground storage tanks) or by third parties (whether neighbors such as dry cleaners or others) unrelated to us.

We have incurred debt financing and may incur increased indebtedness in connection with future acquisitions.

A substantial portion of our outstanding indebtedness is secured by individual properties. Neither our articles of incorporation nor our bylaws limit the amount of indebtedness that we may incur. Subject to limitations in our debt instruments, we may incur additional debt in the future to finance acquisitions and renovations and for general corporate purposes. Accordingly, we could become highly leveraged, resulting in an increase in debt service that could adversely affect our operating cash flow. Our continuing indebtedness could increase our vulnerability to general economic and lodging industry conditions (including increases in interest rates) and could impair our ability to obtain additional financing in the future and to take advantage of significant business opportunities that may arise. Our indebtedness is, and will likely continue to be, secured by mortgages on our owned hotels. We cannot assure you that we will be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets, including our hotels, to foreclosure. Adverse economic conditions could cause the terms on which borrowings become available to be unfavorable to us. In such circumstances, if we are in need of capital to repay indebtedness in accordance with its terms or otherwise, we could be required to sell one or more of our owned hotels at times that may not permit realization of the maximum potential return on our investments. Economic conditions could result in higher interest rates, which would increase debt service requirements on our variable rate debt and could reduce the amount of cash available for general corporate purposes.

The increasing use of third-party travel websites by consumers may adversely affect our profitability.

Some of our hotel rooms may be booked through third-party travel websites such as Travelocity.com, Expedia.com and Priceline.com. If these internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us. Moreover, some of these internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality (such as three-star downtown hotel) at the expense of brand identification. We believe that these internet intermediaries hope that consumers will eventually develop brand loyalties to their reservation systems. Although most of the business for our hotels is expected to be derived from traditional channels, if the amount of sales made through internet intermediaries increases significantly, our room revenues may flatten or decrease and our profitability may be adversely affected.

Due to the shareholdings of our Chairman, together with other members of the Barbieri family, we may be limited in our ability to undertake a change of control transaction requiring shareholder approval.

As of March 31, 2006, Donald K. Barbieri, our Chairman of the Board, had sole voting and investment power with respect to 8.1% of our outstanding shares of common stock. Heather Barbieri, his ex-spouse, had sole voting and investment power with respect to 7.6% of our outstanding shares of common stock. Pursuant to a trust agreement, Donald K. Barbieri and Heather Barbieri share voting and investment power with respect to an additional 5.7% of our outstanding shares of common stock. Richard L. Barbieri, who is also a director and Donald K. Barbieri's brother, beneficially owned 3.1% of our outstanding shares of common stock as of March 31, 2006. Two of the selling shareholders, who own 5.8% of our outstanding shares of common stock,

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are also members of the Barbieri family. In addition, we believe that other members of the Barbieri family who are not directors, executive officers or 5% shareholders individually hold our outstanding common stock. As such, to the extent they are willing and able to act in concert, they may have the ability as a group to approve or block actions requiring the approval of our shareholders, including a merger or a sale of all of our assets or a transaction that results in a change of control.

Risks relating to our common stock and this offering

Anti-takeover provisions in our charter documents and under Washington law could make removal of incumbent management or an acquisition of us, which may be beneficial to our shareholders, more difficult.

Provisions of our articles of incorporation and bylaws may have the effect of deterring or delaying attempts by our shareholders to remove or replace management, to commence proxy contests, or to effect changes in control. These provisions include:

a classified board so that only approximately one third of the board of directors is elected each year;

absence of cumulative voting in the election of directors;

requirements for advance notification of shareholder nominations and proposals;

the ability of our board of directors to amend our bylaws without shareholder approval; and

the ability of our board of directors to issue up to 5,000,000 shares of preferred stock without shareholder approval upon the terms and conditions and with the rights, privileges and preferences that the board of directors may determine.

In addition, as a Washington corporation, we are subject to laws that impose restrictions on some transactions between a corporation and certain significant shareholders. These provisions, alone or together, could have the effect of deterring or delaying changes in our incumbent management, proxy contests or changes in control.

We have not paid cash dividends on our common stock and do not expect to do so.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We intend to retain earnings to provide funds for the anticipated growth and development of our business.

The market price for our common stock may be volatile, and you may not be able to sell our stock at a favorable price or at all.

Many factors could cause the market price of our common stock to rise or fall, including:

actual or anticipated variations in our quarterly results of operations;

changes in market valuations of companies in the hospitality or real estate industries;

changes in expectations of future financial performance;

fluctuations in stock market prices and volumes;

issuances of common stock or other securities in the future;

the addition or departure of key personnel, including one or more members of our senior management team; and

announcements by us or our competitors of acquisitions, investments or strategic alliances.

It is possible that the price for our common stock may decline below the price you paid for it.

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Substantial sales of our common stock, or the perception that such sales might occur, could depress the market price of our common stock.

Except for shares subject to lock up agreements, as discussed below, substantially all of the shares of our common stock are eligible for immediate resale in the public market. Subject to certain limited exceptions, our directors, executive officers and the selling shareholders are restricted from selling shares of common stock until ninety days after the date of this prospectus. We cannot predict whether future issuances of our common stock or resales in the open market will decrease the market price of our common stock. The exercise of the underwriters' over-allotment option, the exercise of any stock options or the vesting of any restricted stock granted to directors, executive officers and other employees under our stock incentive plans, the issuance of common stock or units in connection with property, portfolio or business acquisitions and other issuances of our common stock could have an adverse effect on the market price of our common stock. In addition, future issuances of our common stock may be dilutive to existing stockholders. Any sales of substantial amounts of our common stock in the public market, or the perception that such sales might occur, could adversely affect the market price of our common stock.

Our shareholders will be diluted if we issue additional capital stock in the future.

If we require additional capital to pursue hotel acquisition or other opportunities or for any other reason, we may issue additional shares of common stock or preferred stock to raise the necessary capital, or the Partnership may issue OP Units, which may be redeemable on a one-to-one basis for our common stock. Such issuances could result in dilution to our shareholders.

Future offerings of debt securities or preferred stock, which would be senior to our common stock upon liquidation and for the purpose of distributions, may cause the market price of our common stock to decline.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred stock or common stock. We will be able to issue additional shares of common stock or preferred stock without stockholder approval, unless stockholder approval is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Upon liquidation, holders of our debt securities, holders of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Preferred stock and debt, if issued, could have a preference on liquidating distributions or a preference on dividend or interest payments that could limit our ability to make a distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their interest.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus 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, should, will and similar expressions or their negatives are used in this prospectus, these are forward-looking statements. The forward-looking statements contained in this prospectus reflect our current views about current events and are subject to risks, uncertainties, assumption and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. Many possible events or factors, such as changes in economic, business, competitive market and regulatory conditions, as well as those discussed in Risk Factors beginning on page 15 of this prospectus, 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 prospectus. We do not intend, and disclaim any duty or obligation, to update or revise any industry information or forward-looking statements set forth in this prospectus to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events described by our forward-looking statements might not occur. We qualify any and all of our forward-looking statements by these cautionary factors. Please keep this special note in mind as you read this prospectus.

This prospectus contains market date industry statistics and other data that have been obtained from, or compiled from, information made by third parties. We have not independently verified their data.

USE OF PROCEEDS

We expect to receive net proceeds of approximately \$56.4 million from the sale of 5,000,000 shares of our common stock in this offering, based on an assumed offering price of \$12.05 per share, the last reported sale price of our common stock on the NYSE on April 27, 2006, after deducting the estimated expenses related to this offering and the underwriting discounts and commissions payable by us. We will not receive any proceeds from the sale of the common stock being offered by the selling shareholders.

We intend to use (i) approximately \$16.9 million of the net proceeds to us from this offering to fund the mandatory redemption of \$16.1 million of the outstanding 9.5% trust preferred securities of Red Lion Hotels Capital Trust, or the Trust, at a required 5% premium over par, (ii) up to \$34.5 million of the remaining net proceeds to us to reduce our existing secured debt and pay associated defeasance costs and (iii) the remaining net proceeds to us for general corporate purposes. We have not identified any specific items of debt that will be repaid from the net proceeds to us from this offering.

The mandatory redemption of the trust preferred securities of the Trust will be made pursuant to the terms of those securities, which require us, if we consummate an offering of our common stock that results in gross proceeds to us of at least \$50 million prior to February 19, 2007, to fund the redemption of 35% of the aggregate \$46 million principal amount of the Trust's outstanding trust preferred securities at a redemption price equal to 105% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date.

Table of Contents**PRICE RANGE OF COMMON STOCK**

Our common stock is listed on the NYSE under the symbol **RLH** . Prior to September 19, 2005, the stock traded under the symbol **WEH** . The following table sets forth for the periods indicated the high and low closing sale prices for the common stock on the NYSE.

	High	Low
2006		
Second Quarter (through April 27, 2006)	\$ 13.30	\$ 11.48
First Quarter (ended March 31, 2006)	\$ 13.35	\$ 8.46
2005		
Fourth Quarter (ended December 31, 2005)	\$ 9.30	\$ 6.97
Third Quarter (ended September 30, 2005)	\$ 7.10	\$ 6.54
Second Quarter (ended June 30, 2005)	\$ 7.06	\$ 6.61
First Quarter (ended March 31, 2005)	\$ 7.10	\$ 5.95
2004		
Fourth Quarter (ended December 31, 2004)	\$ 6.10	\$ 4.92
Third Quarter (ended September 30, 2004)	\$ 5.74	\$ 4.80
Second Quarter (ended June 30, 2004)	\$ 6.87	\$ 5.19
First Quarter (ended March 31, 2004)	\$ 6.65	\$ 4.71

The last reported sale price of our common stock on the NYSE on April 27, 2006 was \$12.05 per share. As of March 31, 2006, we had approximately 114 shareholders of record of our common stock.

DIVIDEND POLICY

We do not anticipate paying any cash dividends on the common stock in the foreseeable future. We intend to retain earnings to provide funds for the anticipated growth and development of our business. Any determination to pay cash dividends in the future will be at the discretion of our board of directors and will depend upon, among other things, our results of operations, financial condition, contractual restrictions and other factors deemed relevant by our board. Our board will periodically review our dividend policy on our shares of common stock.

Table of Contents**CAPITALIZATION**

The following table sets forth, as of December 31, 2005,

our actual capitalization;

our capitalization, as adjusted to give effect to the consummation of this offering, including:
the receipt of approximately \$56.4 million of estimated net proceeds to us of this offering, assuming gross proceeds of approximately \$60.3 million, based upon an assumed offering price of \$12.05 per share, the last reported sale price of our common stock on the NYSE on April 27, 2006, and deduction of estimated underwriting discounts and commissions and offering expenses payable by us;

the payment of approximately \$16.9 million to fund the mandatory redemption of \$16.1 million of the outstanding 9.5% trust preferred securities of Red Lion Hotels Capital Trust at a required 5% premium over par; and

our capitalization, adjusted as described above and as further adjusted to reflect the potential application of the remainder of such net proceeds to repay \$34.5 million in outstanding debt with assumed defeasance costs for early repayment of \$5 million.

This information should be read in conjunction with **Use of Proceeds** in this prospectus and our consolidated financial statements and notes thereto incorporated by reference in this prospectus.

	As of December 31, 2005		
	Actual	Pro Forma (As Adjusted for Net Proceeds From Offering and Trust Preferred Redemption)(1)	Pro Forma (As Further Adjusted for Potential Use of Remaining Proceeds)
	(Unaudited)		(Unaudited)
	(In thousands, except share amounts and par values)		
Cash and cash equivalents(2)	\$ 28,729	\$ 68,250	\$ 28,750
Long-term obligations:(3)			
Long-term debt, including current portion	130,364	130,364	95,864
Debentures due Red Lion Hotels Capital Trust	47,423	30,825	30,825
Total long-term obligations	177,787	161,189	126,689
Minority interest in partnerships	9,080	9,080	9,080
Stockholders equity:			
Preferred stock, 5,000,000 shares authorized, \$0.01 par value; no shares issued and outstanding			
Common stock, 50,000,000 shares authorized, \$0.01 par value; 13,131,282, 18,131,282 and 18,131,282 shares outstanding	131	181	181

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Additional paid-in capital, common stock	84,832	141,208	141,208
Retained earnings	36,284	35,454	30,454
Total stockholders equity	121,247	176,843	171,843
Total capitalization	\$ 308,114	\$ 347,112	\$ 307,612

- (1) Reflects mandatory prepayment at a required 5% premium over par of \$16.1 million of our outstanding debentures related to the trust preferred securities of Red Lion Hotels Capital Trust and mandatory prepayment at the same premium of an additional approximately \$498 thousand of our outstanding debentures related to the trust common securities of the trust held by us. The proceeds of these redemptions will be used by the trust to fund the redemption of the related outstanding trust preferred and common securities.
- (2) Excludes \$66 thousand of cash and cash equivalents related to discontinued operations.
- (3) Excludes secured debt of \$2.3 million related to discontinued operations.

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Our net tangible book value at December 31, 2005 was \$80.3 million, or \$6.12 per share of common stock.

Net tangible book value per share is equal to our total tangible assets less our total liabilities divided by the number of outstanding shares of common stock. After giving pro forma effect to the sale by us of the 5,000,000 shares offered hereby at an assumed offering price of \$12.05 per share, the last reported sale price of our common stock on the NYSE on April 27, 2006, and the receipt of the estimated net proceeds to us from the offering, our pro forma net tangible book value at December 31, 2005 would have been approximately \$136.8 million, or approximately \$7.54 per share of common stock.

This amount represents an immediate increase in the pro forma net tangible book value per share of \$1.49 per share to our existing shareholders and an immediate dilution in pro forma net tangible book value per share to new investors of approximately \$4.70 per share. The following table illustrates this per share dilution.

Offering price per share	\$ 12.05
Net tangible book value per share before this offering	6.12
Pro forma net tangible book value increase per share attributable to this offering	1.42
Pro forma net tangible book value per share after this offering	7.54
Pro forma net tangible book value dilution per share to new investors	\$ 4.51

Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA**

The following table sets forth our selected consolidated financial data as of and for the years ended December 31, 2005, 2004, 2003, 2002 and 2001. The selected consolidated statement of operations and balance sheet data are derived from our audited financial statements. The audited consolidated financial statements for certain of these periods are incorporated by reference in this prospectus from our annual report on Form 10-K for the fiscal year ended December 31, 2005. The selected consolidated financial data set forth below should be read in conjunction with, and are qualified in their entirety by, our consolidated financial statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial information included elsewhere and incorporated by reference in this prospectus.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(In thousands, except per share data)				
Consolidated statement of operations data:(1)					
Continuing operations					
Total revenues	\$ 165,048	\$ 163,143	\$ 157,528	\$ 166,246	\$ 95,828
Operating expenses(2)	\$ 153,437	\$ 151,895	\$ 146,568	\$ 146,251	\$ 78,898
Operating income	\$ 11,611	\$ 11,248	\$ 10,960	\$ 19,995	\$ 16,930
Net income (loss) from continuing operations	\$ (1,144)	\$ (890)	\$ 1,560	\$ 7,083	\$ 6,372
Net income (loss) from continuing operations applicable to common shareholders(3)	\$ (1,144)	\$ (1,267)	\$ (980)	\$ 4,506	\$ 6,372
Earnings (loss) per share applicable to common shareholders before discontinued operations:					
Basic	\$ (0.09)	\$ (0.10)	\$ (0.07)	\$ 0.35	\$ 0.50
Diluted	\$ (0.09)	\$ (0.10)	\$ (0.07)	\$ 0.34	\$ 0.50
Discontinued operations					
Net gain (loss) on disposal of discontinued business units, net of income tax expense (benefit)	\$ 3,702	\$ (5,770)	\$	\$	\$
Income (loss) from operations of discontinued business units, net of income tax expense or (benefit)	\$ 1,937	\$ 375	\$ (341)	\$ 924	\$ 1,207
Earnings (loss) on discontinued operations:					
Basic	\$ 0.43	\$ (0.41)	\$ (0.03)	\$ 0.07	\$ 0.09
Diluted	\$ 0.43	\$ (0.41)	\$ (0.03)	\$ 0.07	\$ 0.09
Total earnings (loss) per common share					
Basic	\$ 0.34	\$ (0.51)	\$ (0.10)	\$ 0.42	\$ 0.59
Diluted	\$ 0.34	\$ (0.51)	\$ (0.10)	\$ 0.41	\$ 0.59
Weighted average shares outstanding					
Basic	13,105	13,049	12,999	12,975	12,953
Diluted	13,105	13,049	12,999	13,285	13,239

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	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(In thousands, except per share data)				
Consolidated balance sheet data:(1)					
Working capital(4)	\$ 22,693	\$ 2,147	\$ 729	\$ (9,094)	\$ (6,373)
Assets of discontinued operations	\$ 20,217	\$ 61,757	\$ 63,349	\$ 64,049	\$ 65,302
Assets held for sale	\$ 715	\$ 1,599	\$	\$ 20,555	\$ 7,581
Property and equipment, net	\$ 235,444	\$ 223,132	\$ 204,199	\$ 193,451	\$ 209,157
Total assets	\$ 355,596	\$ 364,612	\$ 353,225	\$ 356,710	\$ 359,649
Notes payable to bank	\$	\$	\$	\$ 52,100	\$ 54,250
Total long-term debt and capital lease obligation	\$ 130,364	\$ 133,211	\$ 128,687	\$ 89,788	\$ 100,304
Debentures due Red Lion Hotels Capital Trust	\$ 47,423	\$ 47,423	\$	\$	\$
Liabilities of discontinued operations	\$ 3,089	\$ 22,879	\$ 23,580	\$ 17,548	\$ 18,419
Long-term debt included with discontinued operations	\$ 2,349	\$ 21,743	\$ 22,749	\$ 16,575	\$ 17,377
Total liabilities	\$ 234,349	\$ 248,225	\$ 201,036	\$ 202,594	\$ 210,834
Preferred stock and related additional paid-in capital	\$	\$	\$ 29,412	\$ 30,131	\$ 30,377
Total stockholders equity	\$ 121,247	\$ 116,387	\$ 152,189	\$ 154,116	\$ 148,815
Other data:(1)					
EBITDA(5)(6)	\$ 33,945	\$ 18,268	\$ 25,269	\$ 33,610	\$ 35,352
EBITDA from continuing operations(5)	\$ 23,939	\$ 22,602	\$ 21,628	\$ 29,212	\$ 30,048
Net cash provided by operating activities	\$ 12,559	\$ 10,889	\$ 11,338	\$ 14,306	\$ 16,368
Net cash provided by (used in) investing activities	\$ 10,581	\$ (21,876)	\$ (1,310)	\$ (8,656)	\$ (22,928)
Net cash provided by (used in) financing activities	\$ (4,256)	\$ 12,777	\$ (2,659)	\$ (9,511)	\$ 7,697

- (1) The consolidated balance sheet data reflect the acquisition of Red Lion Hotels, Inc. as of December 31, 2001. The results of operations for that entity are included in the consolidated statements of operations beginning the day of the acquisition going forward. The comparability of the data is also affected by a change in accounting for goodwill amortization beginning with the year ended December 31, 2002. The activities and balance sheet of discontinued operations have been reflected on a comparable basis for all years presented.
- (2) Operating expenses include all direct segment expenses, depreciation and amortization, gain or loss on asset dispositions, hotel facility and land lease, undistributed corporate expenses, and conversion expenses, if any.
- (3) Net income or loss applicable to common shareholders represents net income less earned dividends on preferred stock, if applicable for the period presented.
- (4) Represents current assets less current liabilities, excluding assets and liabilities of discontinued operations and assets held for sale.

- (5) EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA is not intended to represent net income as defined by generally accepted accounting principles in the United States and such information should not be considered as an alternative to net income, cash flows from operations or any other measure of performance prescribed by generally accepted accounting principles in the United States.
- (6) In 2005, the balance includes a gain on the sale of seven hotels and an office building of \$10.2 million and a non-cash impairment charge of \$4.5 million on four hotels. In 2004, the balance includes a non-cash impairment charge of \$8.9 million on four hotels.

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As noted, EBITDA represents net income (or loss) before interest expense, income tax benefit or expense, depreciation and amortization. We utilize EBITDA as a financial measure because we believe 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 ongoing operations. We believe it is a complement to net income and other financial performance measures. EBITDA from continuing operations is calculated in the same manner, but excludes the operating activities of business units identified as discontinued. EBITDA is not intended to represent net income or loss as defined by generally accepted accounting principles in the United States and such information should not be considered as an alternative to net income, cash flows from operations or any other measure of performance prescribed by generally accepted accounting principles in the United States.

We use EBITDA to measure the financial performance of our owned and leased hotels because it excludes interest, taxes, depreciation and amortization, which bear little or no relationship to operating performance. By excluding interest expense, EBITDA measures our financial performance irrespective of our capital structure or how we finance our properties and operations. We generally pay federal and state income taxes on a consolidated basis, taking into account how the applicable taxing laws apply to our company in the aggregate. By excluding taxes on income, we believe EBITDA provides a basis for measuring the financial perform