

## FRANCHISE DISCLOSURE DOCUMENT



**Sonesta RL Hotels Franchising Inc.,  
a Washington Corporation  
Two Newton Place  
255 Washington Street, Suite 230  
Newton, Massachusetts 02458  
Telephone Number: (617) 421-5400  
www.sonesta.com**

The franchise offered in this disclosure document is for the rights to operate a Sonesta ES Suites-branded hotel.

The total investment necessary to convert a 100-room existing hotel into a Sonesta ES Suites-branded hotel is estimated to range between \$1,078,900 to \$5,256,950. These amounts include \$103,400 to \$191,950 that must be paid to us.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no government agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact the Franchise Development Department at Sonesta RL Hotels Franchising Inc., at Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458 and (617) 421-5400 or [development@sonesta.com](mailto:development@sonesta.com).

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "[A Consumer's Guide to Buying a Franchise](#)," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

**Issuance Date: September 24, 2021**

## How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

<b>QUESTION</b>	<b>WHERE TO FIND INFORMATION</b>
<b>How much can I earn?</b>	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20.
<b>How much will I need to invest?</b>	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
<b>Does the franchisor have the financial ability to provide support to my business?</b>	Item 21 or Exhibit B includes financial statements. Review these statements carefully.
<b>Is the franchise system stable, growing, or shrinking?</b>	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
<b>Will my business be the only Sonesta ES Suites business in my area?</b>	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
<b>Does the franchisor have a troubled legal history?</b>	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
<b>What's it like to be a Sonesta ES Suites franchisee?</b>	Item 20 lists current and former franchisees. You can contact them to ask about their experiences.
<b>What else should I know?</b>	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

## What You Need To Know About Franchising *Generally*

**Continuing responsibility to pay fees.** You may have to pay royalties and other fees even if you are losing money.

**Business model can change.** The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

**Supplier restrictions.** You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

**Operating restrictions.** The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

**Competition from franchisor.** Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

**Renewal.** Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

**When your franchise ends.** The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

### Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit A.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

## Special Risks to Consider About *This Franchise*

Certain states require that the following risk(s) be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration, and/or litigation only in Massachusetts. Out of state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost you more to mediate, arbitrate, or litigate with us in Massachusetts than in your home state.

Certain states may require other risks to be highlighted. Check the “State Specific Addenda” (if any) to see whether your state requires other risks to be highlighted.

**THE FOLLOWING APPLY TO TRANSACTIONS GOVERNED BY  
THE MICHIGAN FRANCHISE INVESTMENT LAW ONLY**

**THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU:**

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in the Michigan Franchise Investment Act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
  - (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.

(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

(iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

(h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000, the franchisor shall, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

**THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE ATTORNEY GENERAL.**

Any questions regarding this notice should be directed to:

Michigan Attorney General's Office  
Consumer Protection Division  
Attention: Franchise Section  
G. Mennen Williams Building, 1<sup>st</sup> Floor  
525 West Ottawa Street  
Lansing, Michigan 48933  
Telephone Number: 517-373-7117

Note: Despite subparagraph (f) above, we intend, and we and you agree to fully enforce the arbitration provisions of the Franchise Agreement. We believe that paragraph (f) is unconstitutional and cannot preclude us from enforcing these arbitration provisions. You acknowledge that we will seek to enforce this section as written.

**THE MICHIGAN NOTICE APPLIES ONLY TO FRANCHISEES WHO ARE RESIDENTS OF MICHIGAN OR LOCATE THEIR FRANCHISES IN MICHIGAN.**

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## **ITEM 1. THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES**

To simplify the language in this disclosure document, "SRLHF," "we" or "us" means Sonesta RL Hotels Franchising Inc., the franchisor. "You" means the person (or persons) who signs the franchise agreement - the "franchisee." If the franchisee will be a corporation, partnership, limited liability company or other entity, "you" also includes both the business entity and those persons that have a 15% or greater legal or beneficial ownership interest in the franchisee entity, who will have to guarantee your obligations and be bound by the provisions of your franchise agreement (the "Franchise Agreement"), the form of which is attached as Exhibit D to this disclosure document, and the other agreements as described in this disclosure document.

Our agents for service of process in the states whose franchise laws require us to name an agent for service are shown on Exhibit A to this disclosure document.

### **About the Franchisor, its Parent and Predecessors**

We are a corporation formed in the State of Washington on December 24, 1986, as Vance Hotels, Inc. On September 19, 2005, we changed our name to Red Lion Hotels Franchising Inc., and, on September 23, 2021, we subsequently changed our name to Sonesta RL Hotels Franchising Inc. Our principal business address is Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458; however, we or RLHC may provide certain support services to Brand Hotels from our offices at 315 East Robinson Street, Orlando, Florida 32801. Our parent corporation was incorporated in the State of Washington on April 25, 1978, and changed its name from WestCoast Hospitality Corporation to Red Lion Hotels Corporation on September 19, 2005 ("RLHC"). RLHC shares our principal business address. We and RLHC, directly and indirectly through its subsidiaries and affiliates, have been active in the ownership and management of hotels since our incorporation.

On April 30, 2015, we purchased the intellectual property assets and hotel franchise agreements of GuestHouse International, LLC, a South Dakota limited liability company. This acquisition added the GuestHouse and Settle Inn brands to the Network Brands (as defined below).

On September 30, 2016, we purchased substantially all of the operating assets of Vantage Hospitality Group, Inc., a Florida corporation now known as VHGI, Inc. ("VHGI"), its subsidiary Vantage Franchising, Inc., a Florida corporation ("VFI"), its subsidiary LHINDI, Inc., a Florida corporation, and certain other affiliates, including the intellectual property relating to the Acquired Vantage Brands and the related hotel franchise agreements. "Acquired Vantage Brands" refers to each of the following brands and their various extensions: Lexington, Jameson Inn, Americas Best Value Inn, Country Hearth Inn, Signature Inn, America's Best Inn, 3 Palms Hotels and Resorts, Canadas Best Value Inn, Value Hotel Worldwide, and Value Inn Worldwide.

On May 14, 2018, we acquired the intellectual property assets and hotel franchise agreements related to the Knights Inn hotel brand from Wyndham Hotel Group, LLC and its affiliates, through RLHC's acquisition of Knights Franchise Systems, Inc., and certain assets related to the Knights Inn brand in Canada from Wyndham Hotel Group Canada, ULC, which were assigned to us.

On March 17, 2021, RLHC and Sonesta International Hotels Corporation ("Sonesta") completed a merger transaction, as a result of which RLHC became a wholly-owned subsidiary



of Sonesta. Sonesta is a subsidiary of Sonesta Holdco Corporation (“Sonesta Holdco”). Sonesta and Sonesta Holdco both share our principal business address.

Except as set forth in this Item 1, we do not have any other parents, nor do we have any predecessors from whom we acquired, directly or indirectly, the major portion of our assets within the past 10-year period.

### **The Franchised Business**

We grant franchises to established hotel operators and owners of existing upscale extended stay hotels who want to convert their hotel into a hotel that operates under the service mark Sonesta ES Suites® and certain other proprietary marks, including all service marks, trademarks, logos, insignia, emblems, symbols, designs, slogans, distinguishing characteristics, trade names, and all other marks or characteristics (collectively referred to as the “Marks”) associated with or used to identify Brand Hotels (as defined below) and the products and services they offer, and similar intellectual property rights that we designate to be used in connection with Brand Hotels, under a form of Franchise Agreement, attached as Exhibit D. Hotels that are authorized to operate under the Marks, the Franchise System (defined below), and the Brand Standards (defined below) are known as “Brand Hotels.”

We have offered franchises under the Marks since September 2021. A franchise grants you the non-exclusive right to operate a hotel under the Marks at a specified location (your “Hotel”). You must follow the high standards we have established as the essence of Brand Hotels, and you may be required to make future investments.

The “Franchise System” includes our and our affiliates’ distinct business formats, methods, procedures, signs, designs, layouts, standards, specifications, and the Marks used to operate Brand Hotels. Brand Hotels are provided access to: a reservation service; advertising, publicity and other marketing programs and materials; training programs and materials; standards, specifications and policies for construction, furnishing, operation, appearance and service of the Brand Hotel; other elements we refer to in the Franchise Agreement, the Brand Standards, the Brand Manual (as defined below) or in other communications to you; and programs for our inspecting your Hotel and consulting with you.

The Brand Standards are designed to provide distinctive, high-quality lodging service at Brand Hotels. “Brand Standards” means the mandatory specifications, standards, operating procedures, and rules that we periodically prescribe for constructing, equipping, furnishing, supplying, operating, maintaining and marketing Brand Hotels, including your Hotel. We may add elements to the Brand Standards or modify, alter or delete elements of the Brand Standards. Brand Standards may be included in the Brand Manual or otherwise distributed by us in writing. “Brand Manual” means one or more documents or guides commonly referred to as the brand standards manual together with its supporting documentation. The Brand Manual may include the Brand Standards and information on suggested procedures and your other obligations under the Franchise Agreement.

### **Franchisor’s Business**

We also offer franchises for hotels under the following brands:

### *Sonesta Hotels and Resorts*

As of September 2021, we began offering franchises for hotels that provide full service, upscale accommodations with modern furnishings under the service mark Sonesta® Hotels and Resorts. The Sonesta® Hotels and Resorts service mark and related trademarks, service marks and trade names are collectively referred to as the “Sonesta Hotels and Resorts Marks.” As of August 31, 2021, there were 23 affiliate-owned hotels in the United States under the Sonesta Hotels and Resorts Marks.

### *Sonesta Simply Suites*

As of September 2021, we began offering franchises for extended stay hotels that provide affordable, mid-scale accommodations under the service mark Sonesta® Simply Suites. The Sonesta® Simply Suites service mark and related trademarks, service marks and trade names are collectively referred to as the “Sonesta Simply Marks.” As of August 31, 2021, there were 59 affiliate-owned hotels in the United States under the Sonesta Simply Marks.

### *Sonesta Select*

As of September 2021, we began offering franchises for hotels that provide select service, upscale accommodations with thoughtfully designed common areas under the service mark Sonesta® Select. The Sonesta® Select service mark and related trademarks, service marks and trade names are collectively referred to as the “Sonesta Select Marks.” As of August 31, 2021, there were 58 affiliate-owned hotels in the United States under the Sonesta Select Marks.

### *Red Lion Hotel and Red Lion Inn & Suites*

We have offered franchises for full-service, mid-priced hotels under the Red Lion Marks since 1999. “Red Lion Marks” refers to the Red Lion®, Red Lion Hotel®, Red Lion Inn®, and Red Lion Inn & Suites® service marks and related trademarks and service marks. Typically, Red Lion Hotels are full-service hotels that offer food and beverage and meeting space. Red Lion Inn & Suites are typically limited service hotels.

As of December 31, 2020, there were 29 Red Lion Hotel franchises open or under contract and 42 Red Lion Inn & Suites franchises open or under contract. There were also two affiliate-owned hotels under the Red Lion Marks as of December 31, 2020.

### *Hotel RL*

In 2014, we launched Hotel RL. This upscale lifestyle brand is a full-service, conversion brand targeted for the top U.S. urban markets that is inspired by the spirit of the Pacific Northwest and designed for consumers with a millennial mindset. The Hotel RL® and RL<sup>SM</sup> service marks and related trademarks, service marks and trade names are collectively referred to as the “RL Marks.” As of December 31, 2020, there were six Hotel RL franchises open or under contract. There were also two affiliate-owned hotels under the RL Marks as of December 31, 2020.

### *GuestHouse and GuestHouse Extended Stay*

As of March 2020, we began offering franchises for economy extended stay hotels under the service mark “GuestHouse Extended Stay<sup>SM</sup>.” From May 2015 to March 2020, we offered franchises for the economy segment, primarily limited service hotels, under the GuestHouse®

service mark. As of December 31, 2020, there were 17 GuestHouse franchises open or under contract.

### *Signature Inn*

In October 2017, we began offering franchises for the operation of affordable boutique properties in the economy lodging segment under the service mark Signature Inn<sup>SM</sup>. As of December 31, 2020, there were four Signature Inn franchises under contract but not yet open. The Signature Inn service marks and related trademarks and trade names are referred to as the “Signature Inn Marks.”

### *Knights Inn*

In June 2018, we began offering franchises for the operation of hotels in the limited-service segment under the Knights Inn Marks. The “Knights Inn Marks” refers to the Knights Inn<sup>®</sup> service mark and related trademarks and trade names. As of December 31, 2020, there were 188 Knights Inn franchises open or under contract.

### *Americas Best Value Inn*

In October 2016, we began offering franchises for the operation of hotels in the limited-service segment under the service mark Americas Best Value Inn<sup>®</sup> (“ABVI”) and certain other proprietary marks, collectively referred to as the “ABVI Marks.” As of December 31, 2020, there were 556 Americas Best Value Inn-branded hotels open or under contract, approximately 260 of which are franchised. The remaining became affiliated with the ABVI brand through VHGI’s membership model, and we provide services for those ABVI hotels as well.

### *Former Franchise Offerings*

We offered franchises under the brand Signature<sup>SM</sup> from October 2017 to November 2020. The Signature brand is a midscale and upscale brand that features similar design elements to the Signature Inn brand as modified for properties in larger markets, destination markets, or that otherwise fall within the midscale or upscale segments. As of December 31, 2020, there were four Signature franchises open or under contract. The Signature<sup>SM</sup> service marks and related trademarks, service marks and trade names are referred to as the “Signature Marks.”

We offered franchises for the operation of hotels in the budget lodging segment, some of which operate under the service marks Country Hearth Inn<sup>®</sup>, Country Hearth Suites<sup>®</sup>, Country Hearth Inn & Suites<sup>®</sup> and certain other proprietary marks, collectively referred to as the “Country Hearth Marks,” from October 2016 to March 2020. From November 2017 to March 2020, we also entered into franchise agreements that allowed Country Hearth franchisees to continue operating under their existing name (as long as it is not licensed by a third-party or associated with a third-party’s franchise system) using the Country Hearth system and distribution channels. As of December 31, 2020, there were 41 franchised Country Hearth-branded hotels open or under contract, 23 of which operated under names and trademarks other than the Country Hearth Marks.

We offered franchises for the operation of extended stay hotels in the midscale segment under the service marks Settle Inn<sup>®</sup> and Settle Inn & Suites<sup>®</sup>, and certain other proprietary marks, collectively referred to as the “Settle Inn Marks,” from July 2016 to March 2019. We no longer

offer new franchises under the Settle Inn brand. As of December 31, 2020, there were no Settle Inn franchises open.

We offered franchises for the operation of midscale and upper midscale hotels in the select-service and full-service segments under the service mark Lexington® and certain other proprietary marks, collectively referred to as the “Lexington Marks,” from October 2016 to March 2018. We no longer offer new franchises under the Lexington brand. As of December 31, 2020, there was one Lexington-branded hotel open, which became affiliated with the Lexington brand through VHGI’s membership model, and we and RLHC provide services to this Lexington hotel.

We offered franchises for Leo Hotel Collection hotels only during 2013. As of December 31, 2020, there were no Leo Hotel Collection hotels. We do not intend to continue to offer Leo Hotel Collection hotels.

As of October 2016, we also act as franchisor for, and we and RLHC provide services to, the franchisees of the following Acquired Vantage Brands, for which we currently do not offer new franchises: America’s Best Inn, Jameson Inn and 3 Palms Hotels & Resorts.

The Marks, Sonesta Select Marks, Sonesta Simply Marks, Sonesta Hotels and Resorts Marks, Red Lion Marks, RL Marks, the GuestHouse service marks, Signature Inn Marks, Knights Inn Marks, ABVI Marks, Lexington Marks, Signature Marks, Country Hearth service marks, Jameson Inn service marks, America’s Best Inn service marks, 3 Palms Hotels & Resorts service marks, Canadas Best Value Inn trademarks, Royal Sonesta service marks, and other marks used by hotels operated by us or our affiliates, or by hotels for which we or Sonesta RL Hotels Canada Franchising Inc. (“SRLHCF”) offer franchises in the future, are collectively referred to as the “Network Marks.” Hotels we or our affiliates license, have licensed in the past, or may license in the future to operate under any of the Network Marks are collectively referred to as the “Network Hotels.” “Network Brands” refers to all hotels licensed to operate under any of the brands listed above and their various extensions, and any other brands that we or our affiliates periodically may own.

We never have offered franchises in any lines of business other than the offerings for those Network Brands described above. Other than the operation and management of hotels under the Red Lion, Hotel RL, Sonesta Hotels and Resorts, Sonesta ES Suites, Sonesta Simply Suites, Sonesta Select and Royal Sonesta brands, neither we nor any of our current affiliates have owned or operated hotels under any of the other franchised brands described above. We have no other business activities.

## **Our Affiliates**

Our affiliates engage in a wide variety of business activities in the lodging business. Sonesta Holdco and its direct and indirect subsidiaries and affiliates, including RLHC, SRLHF and Sonesta, own, lease, manage, and franchise hotels under the various Network Brands. In certain instances, RLHC may provide temporary reservation services under an alternate chain code to franchisees prior to conversion or upon de-identification of the hotel.

Our affiliate, SRLHCF, is a Washington corporation that was formed on August 18, 2016. SRLHCF began offering franchises to operate hotels in Canada under the Red Lion Marks in February 2017; under the Canadas Best Value Inn™ Marks in April 2017; under the RL Marks in July 2017; and under the Signature Marks, Signature Inn Marks, GuestHouse service marks, Country Hearth Marks and Knights Inn Marks in August 2018. In or around October 2021,

SRLHCF will begin offering franchises to operate hotels in Canada under the Marks, Sonesta Select Marks, Sonesta Simply Marks, and Sonesta Hotels and Resorts Marks. SRLHCF does not currently own or operate any Brand Hotels in Canada. However, our affiliates, Sonesta Canada ULC and Sonesta Toronto ULC operate hotels under the Sonesta ES Marks and the Royal Sonesta trademark, respectively, in Canada.

Our affiliate, Sonesta Franchising Corporation (“Sonesta Franchising”), is a Maryland corporation. Sonesta Franchising has offered franchises for hotels outside the United States (including in Chile, Colombia, Ecuador, Egypt and Peru) since 1999, under the following trademarks: Royal Sonesta, Sonesta Hotels and Resorts, Sonesta ES Suites, and Sonesta Posadas del Inca. The Sonesta Posadas del Inca service mark, while utilized under a master franchise agreement with Sonesta Franchising, is considered a “Network Mark” for purposes of this disclosure document. Our affiliate, Sonesta Licensing Corporation (“Sonesta Licensing”), is a Massachusetts corporation. Sonesta Licensing has offered licenses for hotels in St. Maarten since 2004, under the Marks. Sonesta Franchising and Sonesta Licensing have never owned or operated a Brand Hotel nor offered franchises for Brand Hotels in the United States. Sonesta Franchising and Sonesta Licensing share our principal business address.

RLHC, its direct and indirect subsidiaries, and their respective employees will be performing services for franchisees as discussed throughout this disclosure document.

Our affiliates share our principal business address. We do not have any other affiliates that must be disclosed in this Item 1.

### **Laws, Rules and Regulations**

Your Hotel must conform to innkeeper liability laws, privacy laws, laws and regulations regarding food handling and preparation, truth in menu and labeling laws, alcoholic beverage control laws and dram shop acts, license, certificate and permit requirements for hotel and restaurant operation and occupancy, laws regulating the posting of hotel room rates, hotel room occupancy tax laws, minimum wage and labor laws, environmental laws, and laws applicable to public accommodations and services such as the Americans with Disabilities Act. In addition, the laws, rules and regulations that apply to businesses in general will affect you. Consult your lawyer about them. Discuss with your architect or other appropriate professionals the Americans with Disabilities Act and its architectural guidelines, and state and local accessible facilities requirements.

### **The Market and Competition**

The market for your services will depend on your Hotel’s location, size and the nature of your services (e.g., whether your Hotel is suited for guests on frequent business travel, traveling sports teams, and so on). Our franchisees seek customers and business referrals from the local community and typically solicit business from tour and travel groups, on a local, regional and national level. Business and leisure travelers, meeting planners and attendees, and organizers of and attendees of social functions make up the primary market of Sonesta ES Suites customers. In general, you will compete with national hotel and motel chains and independently-operated local hotels and food outlets offering similar types of hotel rooms and food and beverage services to the same clientele. In addition to competing with hotels that offer services comparable to the Brand Hotels, you also may compete with lodging designed to serve particular segments of the market and to fill particular lodging demands.

## **ITEM 2. BUSINESS EXPERIENCE**

### **Carlos R. Flores – President**

Mr. Flores has served as our, SRLHCF's and RLHC's President since March 2021. Mr. Flores also has served as President and Chief Executive Officer of Sonesta in Newton, Massachusetts since 2007, and as Senior Vice President of The RMR Group LLC in Newton, Massachusetts since October 2015. Mr. Flores is based in Newton, Massachusetts.

### **Keith Pierce – Executive Vice President, President of Franchising**

Mr. Pierce has served as our, SRLHCF's and RLHC's Executive Vice President, President of Franchising since March 2021. From May 2017 to March 2021, Mr. Pierce served as President and Managing Partner of Passionality Group in Northport, New York. From May 2011 to May 2017, Mr. Pierce served as Executive Vice President, Brand Operations & Global Systems for Wyndham Hotel Group in Parsippany, New Jersey. Mr. Pierce is based in Denver, Colorado.

### **Jennifer B. Clark – Director, Secretary**

Ms. Clark has served as our, SRLHCF's and RLHC's Director and Secretary since March 2021. Ms. Clark also has held the following positions, each located in Newton, Massachusetts: Secretary of Sonesta and its subsidiaries since January 2012; Executive Vice President, General Counsel & Secretary of The RMR Group LLC and its subsidiaries, and director of the subsidiaries, since July 1999; Managing Director of The RMR Group Inc. since June 2015; Managing Trustee and Secretary of Diversified Healthcare Trust and its subsidiaries, and director of the subsidiaries, from December 1998 to June 2021; Secretary of Industrial Logistics Properties Trust and its subsidiaries since January 2018; Secretary of Service Properties Trust and its subsidiaries since July 1999; Secretary of Five Star Senior Living, Inc. and its subsidiaries since September 2001 and Managing Director since February 2020; Managing Trustee of Office Properties Income Trust since June 2021, Secretary since February 2009, and director of its subsidiaries since June 2021; Secretary of Tremont Mortgage Trust since July 2017; Secretary of RMR Mortgage Trust since January 2019; and Secretary of ABP Trust and its subsidiaries since January 2018. Ms. Clark also serves as Secretary of Travel Centers of America Inc. and its subsidiaries, and director of the subsidiaries, in Westlake, Ohio, since January 2007. Ms. Clark is based in Newton, Massachusetts.

### **Stephen P. Miano – Executive Vice President, Treasurer**

Mr. Miano has served as our and SRLHCF's Executive Vice President, Treasurer since March 2021, and as RLHC's Treasurer since March 2021. Mr. Miano also has served as Vice President, Treasurer and Chief Financial Officer of Sonesta in Newton, Massachusetts since May 2016, and as Vice President of The RMR Group LLC in Newton, Massachusetts since May 2016. From September 2014 to May 2016, Mr. Miano served as Chief Financial Officer of Commune Hotels & Resorts in San Francisco, California. Mr. Miano is based in Newton, Massachusetts.

### **Bradford Maxwell – Senior Vice President, General Counsel**

Mr. Maxwell has served as our and SRLHCF's Senior Vice President, General Counsel since March 2021. Mr. Maxwell also has served as General Counsel of Sonesta in Newton, Massachusetts since May 2015. Mr. Maxwell is based in Newton, Massachusetts.

### **Paul Moerner – Senior Vice President, Finance**

Mr. Moerner has served as our and SRLHCF's Senior Vice President, Finance since April 2020. Mr. Moerner also has served as Senior Vice President, Finance of RLHC in Denver, Colorado since April 2020, and prior to that served as RLHC's Senior Director, Technical Accounting & Reporting from October 2018 to April 2020. From July 2016 to October 2018, Mr. Moerner was employed by Westmoreland Coal Company in Englewood, Colorado in various roles, most recently as Director of SEC Reporting.

### **Jordan Langlois – Senior Vice President, Franchise Operations**

Mr. Langlois has served as our and SRLHCF's Senior Vice President, Franchise Operations since November 2017. From October 2016 to November 2017, Mr. Langlois served as Vice President, Member & Franchise Operations of RLHC in Denver, Colorado. From January 2010 to October 2016, Mr. Langlois served as Vice President, Brand Management of VHGI in Coral Springs, Florida. Mr. Langlois is based in Denver, Colorado.

### **Christopher Trick – Senior Vice President, Sales & Marketing**

Mr. Trick has served as our and SRLHCF's Senior Vice President, Sales & Marketing since September 2020. Mr. Trick also has served as Senior Vice President, Chief Marketing Officer of RLHC in Denver, Colorado since September 2020. From August 2018 to August 2020, Mr. Trick was employed by Southern Carlson, in Omaha, Nebraska, as Vice President, Head of Marketing. From April 2018 to August 2018, Mr. Trick was between positions. Prior to that, Mr. Trick was employed by Realogy Franchise Group, in Madison, New Jersey, as Senior Vice President – Chief Marketing Officer from September 2012 to April 2018. Mr. Trick is based in Denver, Colorado.

### **Brian Quinn – Chief Development Officer**

Mr. Quinn has served as our and SRLHCF's Chief Development Officer since March 2021. From September 2020 to December 2020, Mr. Quinn served as Chief Development Officer of Domio in New York, New York. From January 2017 to January 2020, Mr. Quinn served as Senior Vice President Development of Choice Hotels in Rockville, Maryland. From May 2014 to December 2017, Mr. Quinn served as Chief Franchise Officer of RLHC in Denver, Colorado. Mr. Quinn was between positions from January 2021 to February 2021, as well as from February 2020 to August 2020 as the result of a non-compete agreement with Domio. Mr. Quinn is based in Denver, Colorado.

### **Adam Portnoy – Director**

Mr. Portnoy has served as our, SRLHCF's and RLHC's director since March 2021. Mr. Portnoy also holds the following positions, each located in Newton, Massachusetts: Director of Sonesta since January 2012; Managing Director, President and Chief Executive Officer of The RMR Group Inc. since June 2015; President and Chief Executive Officer of The RMR Group, LLC since 2005; Trustee and President of ABP Trust and its subsidiaries, and director of the subsidiaries, since January 2016; Managing Trustee of Diversified Healthcare Trust, and director of its subsidiaries, since January 2007; Managing Trustee of Industrial Logistics Properties Trust, and director of its subsidiaries, since April 2017; Managing Trustee of Office Properties Income Trust, and director of its subsidiaries, since January 2009; Managing Trustee of Service Properties Trust, and director of its subsidiaries, since January 2007; Managing Trustee of RMR

Mortgage Trust and its subsidiaries, and director of its subsidiaries, since April 2017; Managing Trustee of Tremont Mortgage Trust and its subsidiaries, and director of its subsidiaries, since March 2016; and, Managing Director of Five Star Senior Living, Inc., and director of its subsidiaries, since March 2018. Mr. Portnoy also serves as Managing Director of Travel Centers of America Inc., and director of its subsidiaries, in Westlake, Ohio, since January 2018. Mr. Portnoy is based in Newton, Massachusetts.

### **John Murray – Director**

Mr. Murray has served as our, SRLHCF's and RLHC's director since March 2021. Mr. Murray also holds the following positions, each located in Newton, Massachusetts: Director of Sonesta since March 2019; Executive Vice President of The RMR Group, LLC and its subsidiaries since 2001; President of Service Properties Trust and its subsidiaries since 1996, and Managing Trustee since April 2018; and Managing Trustee of Industrial Logistics Properties Trust and its subsidiaries since December 2018. Mr. Murray is based in Newton, Massachusetts.

### **Keith Biuni – Senior Vice President, Franchise and Development**

Mr. Biuni has served as our Senior Vice President, Franchise and Development since June 2021. From July 2018 to June 2021, Mr. Biuni served as Vice President of Development, Upscale Brands for Marriott International in Bethesda, Maryland. From January 2017 to July 2018, Mr. Biuni served as the Vice President Development for Choice Hotels in Rockville, Maryland. From February 1997 to January 2017, Mr. Biuni served as Regional Vice President, Franchise and Development for IHG in Atlanta, Georgia.

## **ITEM 3. LITIGATION**

### **Pending:**

#### **Litigation Relating to the Merger:**

As of March 24, 2021, ten individual lawsuits have been filed by purported RLHC stockholders in United States District Courts and state courts in connection with the proposed merger (the "Merger") of RLHC with and into a wholly owned subsidiary of Sonesta.

Van Cleave v. Red Lion Hotels Corporation, et al., Case No. 1:21-cv-00177, Filed February 9, 2021 (U.S. District Court for the District of Delaware)

Raul v. Red Lion Hotels Corporation, et al., Case No. 1:21-cv-01208, Filed February 10, 2021 (U.S. District Court for the Southern District of New York)

Romero v. Red Lion Hotels Corporation, et al., Case No. 1:21-cv-01307, Filed February 12, 2021 (U.S. District Court for the Southern District of New York)

Babiker v. Red Lion Hotels Corporation, et al., Case No. 1:21-cv-00440, Filed February 15, 2021 (U.S. District Court for the District of Colorado)

Finger v. Red Lion Hotels Corporation, et al., Case No. 1:21-cv-00513, Filed February 22, 2021 (U.S. District Court for the District of Colorado)

Franchi v. Red Lion Hotels Corporation, et al., Case No. 1:21-cv-00558, Filed February 24, 2021 (U.S. District Court for the District of Colorado)

Waterman v. Red Lion Hotels Corporation, et al., Case No. 21-cv-00916, Filed February 26, 2021 (U.S. District Court for the Eastern District of Pennsylvania)

Anderson v. Red Lion Hotels Corporation, et al., Case No. 21-cv-00617, Filed March 2, 2021 (U.S. District Court for the District of Colorado)



In each of the eight lawsuits identified above, the purported RLHC stockholder filed a complaint against RLHC and the members of the RLHC board of directors alleging that the preliminary proxy statement filed by RLHC on January 26, 2021, or the definitive proxy statement filed by RLHC on February 9, 2021, in connection with the Merger fails to provide certain information allegedly material to RLHC stockholders in violation of Sections 14(a) and 20(a) of the Securities and Exchange Act of 1934 (as amended, the "Exchange Act") and Rule 14a-9 promulgated thereunder. The requests for relief under each of the complaints are generally the same, and include a request: for an injunction enjoining the proposed Merger and any vote on the proposed Merger until defendants disclose and disseminate the allegedly omitted material information; for rescission of the Merger in the event the defendants consummate the Merger (or an award of rescissory damages); for dissemination of a proxy statement that does not contain allegedly untrue statements of material fact and that does not omit allegedly material information; a declaratory judgment that the defendants violated Sections 14(a) and/or 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder; and an award of plaintiff's attorneys' and experts' fees; and other relief.

Allentoff v. Red Lion Hotels Corporation, et al., Case No. 21-2-02579-6, Filed February 24, 2021 (King County Superior Court, Washington)

Devaney v. Red Lion Hotels Corporation, et al., Case No. 21-2-02580-0, Filed February 24, 2021 (King County Superior Court, Washington)

In each of the two lawsuits identified above, the purported RLHC stockholder filed a class action complaint on behalf of himself and a purported class of other similarly situated stockholders of RLHC, against RLHC, the members of the RLHC board of directors and RLHC's former CEO. Each of these complaints contains generally the same allegations, including that the individual defendants breached their fiduciary duties by entering into the agreement for the Merger for inadequate consideration and through an unfair process, that they caused materially misleading and incomplete information to be disseminated to RLHC's stockholders, and that RLHC aided and abetted the individual defendants' breaches of their fiduciary duties. The requests for relief under each of the complaints are generally the same, and include a request: for an injunction enjoining the proposed Merger until defendants disclose and disseminate the allegedly omitted material information; for rescission of the Merger in the event the defendants consummate the Merger (or an award of rescissory damages); to direct the defendants to account for all damages because of the alleged wrongdoing; an award of plaintiff's attorneys' fees and experts' fees; a declaration that the action is properly maintainable as a class action; and other relief.

RLHC believes that the allegations in each of the Merger related complaints are without merit and is considering its response to each of the complaints. Additional lawsuits arising out of or related to the Merger may also be filed in the future.

### **Completed Litigation Unrelating to the Merger:**

Radisson Hotels International, Inc. v. Red Lion Hotels Corporation d/b/a RLH Corporation, and Red Lion Hotels Franchising Inc., Case No. 2:18-cv-00303 (U.S. District Court for the Eastern District of Washington). On September 26, 2018, plaintiff, which is a competitor of RLHC and SRLHF, filed a lawsuit against RLHC and SRLHF for tortious interference with franchise license agreements and a global settlement agreement as a result of SRLHF entering into franchise agreements with nine properties that were previously licensees of plaintiff, which properties allegedly exited plaintiff's franchise system prior to the expiration of their franchise license agreements. On August 25, 2021, plaintiff, RLHC and SRLHF entered into a Settlement Agreement and Release in which plaintiff, on the one hand, and RLHC and SRLHF, on the other

hand, agreed to mutually release one another from all claims, and, without admitting any liability, RLHC and SRLHF agreed to pay plaintiff \$500,000. On September 2, 2021, the court granted the parties' Stipulated Motion for Dismissal, dismissing all of the parties' claims with prejudice.

Red Lion Hotels Franchising, Inc. v. Remo Polselli, Case No. 2:19-cv-00082 (U.S. District Court for the Eastern District of Washington). On March 14, 2019, SRLHF filed a lawsuit against defendant, the guarantor of a former franchisee, for breach of its guarantee as a result of defendant's failure to ensure the former franchisee's performance under the franchise license agreement, including payment of amounts due. SRLHF requested monetary damages. On August 9, 2019, defendant filed a motion to quash personal service and dismiss the lawsuit for lack of personal jurisdiction; defendant filed an amended motion on August 16, 2019. On October 24, 2019, the court denied defendant's motion. On November 18, 2019, defendant filed an answer and an affirmative defense of lack of authorization or forgery, claiming the guarantee was signed by an unauthorized party and is therefore voidable at the option of defendant, or was forged and is void *ab initio*. On February 24, 2020, defendant filed an amended answer, additional affirmative defenses and a counterclaim for attorneys' fees and costs incurred in defending against the lawsuit. On October 9, 2020, the court granted the parties' stipulated motion and entered an Order of Dismissal without Prejudice, dismissing all of the parties' claims without prejudice.

Linger Chu and His-Hsieh Chu v. Jim Tang, Red Lion Hotels Franchising Inc. and Does 1-100, Case No. BC712103 (Superior Court of the State of California, County of Los Angeles). On June 28, 2018, plaintiffs filed a lawsuit against SRLHF and third parties for intentional misrepresentation, negligent misrepresentation, and declaratory relief resulting from plaintiffs' sale of their Red Lion-branded hotel in violation of their franchise agreement. Following the sale, SRLHF sought to enforce its rights resulting from plaintiffs' unapproved transfer, and plaintiffs allege they were told they could proceed with the sale without violating their franchise agreement. Plaintiffs sought an unspecified amount of monetary damages and declaratory relief. On March 28, 2019, the plaintiffs and SRLHF entered into a Settlement and Release Agreement in which the plaintiffs and SRLHF agreed to mutually release one another from all claims and the plaintiffs agreed to pay SRLHF \$250,000 and execute a confession of judgment. On April 2, 2019, the court entered a Stipulation and Order for Final Dismissal, dismissing all of plaintiffs' claims with prejudice.

Red Lion Hotels Franchising, Inc. v. Ghazanfar Khan, et al., Case No. 2:17-cv-00094, Case No. 2:17-cv-00155 (U.S. District Court for the Eastern District of Washington). On March 13, 2017, SRLHF filed a lawsuit against two former franchisees and their guarantors for trademark infringement, false designation of origin and breach of contract as a result of their failure to comply with their post-termination obligations under their franchise agreements (the "Franchise Agreement Lawsuit"). In May 2017, SRLHF filed a second lawsuit against the guarantors for breach of contract as a result of their failure to comply with their post-termination obligations under their guaranties and the underlying franchise agreements (the "Guaranty Lawsuit," together with the Franchise Agreement Lawsuit, the "Khan Lawsuits"). In August 2017, the defendants in the Khan Lawsuits filed respective amended answers and asserted amended counterclaims against SRLHF for breach of contract, violation of the Washington Franchise Investment Protection Act and violation of Washington Consumer Protection Act alleging that SRLHF charged additional fees which were not identified in the applicable franchise agreements. On November 29, 2017, the court issued an order compelling arbitration of defendants' counterclaims in both Khan Lawsuits, denying all pending motions as moot, and staying SRLHF's pending claims pending the outcome of arbitration. On December 28, 2018, the parties entered into a Confidential Settlement and Mutual Release Agreement in which the parties agreed to mutually release each other from all claims, defendants paid to SRLHF \$500,000, and defendants agreed to immediately cease all

use of our proprietary service marks and trademarks. The court subsequently issued final judgment and orders in the Khan Lawsuits (in May 2019 for the Franchise Agreement Lawsuit, and in June 2019 for the Guaranty Lawsuit) permanently enjoining defendants from further use of SRLHF's marks and dismissing all claims and counterclaims in the Khan Lawsuits with prejudice, pursuant to the stipulation and agreement between the parties.

Red Lion Hotels Franchising, Inc. v. Kumar and Sadikila Vemulapalli, Case No. 16-2-01814-3 (Superior Court of Washington, County of Spokane). On May 12, 2016, SRLHF filed a complaint against guarantors of a former franchisee seeking to enforce their personal guaranty of a franchise agreement. On December 15, 2017, defendants filed an answer, affirmative defenses and counterclaims for breach of contract, breach of the implied covenant of good faith and fair dealing, promissory estoppel/reliance damages, and fraud in the inducement/fraud alleging that SRLHF: (1) failed to provide services and support under the franchise agreement, (2) demanded payment of fees other than what defendants allege was agreed upon, (3) countersigned a copy of the franchise agreement that did not contain defendants handwritten changes and therefore was not what defendants believed to be the contract, and (4) interfered with hotel operations following termination. On December 18, 2018, the parties entered into a Settlement and Release Agreement in which the parties agreed to mutually release each other from all claims and defendants agreed to pay SRLHF \$80,000. On June 13, 2019, the court dismissed all claims with prejudice.

Red Lion Hotels Franchising, Inc. v. Minnesota Hospitality, Inc., Case No. 2:19-cv-00061 (U.S. District Court for the Eastern District of Washington). On February 22, 2019, SRLHF filed a lawsuit against defendant, the guarantor of a former franchisee, for breach of its guarantee as a result of defendant's failure to ensure the former franchisee's performance under the franchise license agreement, including payment of amounts due. SRLHF requested monetary damages. On April 26, 2019, defendant filed an answer and counterclaim requesting a declaratory judgment that the guarantee of the franchise license agreement is unenforceable and void as a result of SRLHF's alleged fraud in the inducement based on SRLHF providing information and representations that defendant alleges were false and inaccurate. On October 7, 2019, defendant and SRLHF entered into a settlement and release agreement in which defendant and SRLHF agreed to mutually release one another from certain claims and the defendant agreed to pay SRLHF \$150,000 and execute a confession of judgment. On October 22, 2019, the court granted the parties' stipulated motion to dismiss.

Red Lion Hotels Corporation v. Tiya Hospitality, LLC, Case No. CV-2017-902126.00 (Circuit Court of Jefferson County, Alabama). In May 2017, RLHC filed a lawsuit against a former brand member for failure to pay amounts due and breach of contract for failure to pay amounts due. On July 3, 2017, defendant filed an answer and counterclaim, alleging that RLHC breached the membership agreement, and seeking monetary damages and declaratory judgment. The parties entered into a Confidential Mutual Release and Settlement Agreement on February 19, 2018, under which defendant paid to RLHC \$10,500 and the parties agreed to mutually release each other from all claims. On August 9, 2018, the court entered an Order of Dismissal.

Red Lion Hotels Franchising, Inc. v. JS Three Star Investment Inc., Case No. 96777-422 (District Court of the 422<sup>nd</sup> Judicial District, Kaufman County, Texas). In December 2016, SRLHF filed a lawsuit against a former franchisee for failure to pay its account, unjust enrichment and breach of contract as a result of its failure to pay amounts due under the membership agreement. On March 8, 2017, defendant filed an answer and counterclaim alleging that SRLHF failed to provide services under the membership agreement, which defendant alleges was a violation of the Texas Deceptive Trade Practices Act, requesting damages in the amount of \$81,000. On

December 11, 2017, the parties entered into a confidential settlement agreement in which the parties agreed to mutually release each other from all claims. On January 18, 2018, the court dismissed the case with prejudice.

**Suit Against Former Franchisees/Guarantors to Collect Unpaid Fees or Liquidated Damages:**

Red Lion Hotels Franchising, Inc. v. Joseph G. Gillespie III, Case No. 2:20-cv-00151, Filed April 15, 2020 (U.S. District Court for the Eastern District of Washington).

Red Lion Hotels Franchising, Inc. v. Julie Dumon, Graham Hershman and Helmut Horn, Case No. 2:20-cv-00183, Filed May 20, 2020 (U.S. District Court for the Eastern District of Washington).

Red Lion Hotels Franchising, Inc. v. Chandralekha Enterprises, Inc., Anil Khatri and Deena Khatri, Case No. CIVDS2010455, Filed June 2, 2020 (Superior Court of California, County of San Bernardino, Central Judicial District).

Red Lion Hotels Franchising, Inc. v. Timothy Nystrom, Donna Nystrom, Louis Scott Tarwater, Donna Tarwater, Robert Lawson a/k/a Rob Lawson and Carrie Genualdi, Case No. 2020-cv-033068. Filed September 4, 2020 (District Court, Denver County, Colorado).

Other than the above, no litigation is required to be disclosed in this Item.

**ITEM 4. BANKRUPTCY**

No bankruptcy information is required to be disclosed in this Item.

**ITEM 5. INITIAL FEES**

**Application and Initial Fee**

All prospective franchisees must submit a franchise application to us. When you submit your application, you must pay us an application fee of \$2,000 (the "Application Fee"). The Application Fee is fully earned and non-refundable.

If your application is accepted, you must pay us an initial fee equal to the greater of \$65,000 or \$500 per Guest Room (as defined below) (the "Initial Fee") when you sign the Franchise Agreement. The Initial Fee is fully earned and non-refundable and must be paid before we will countersign the Franchise Agreement. The Application Fee you previously paid will be credited against the Initial Fee that you owe us.

"Guest Room" means each rentable unit in your Hotel generally used for overnight guest accommodations, the entrance to which is controlled by the same key. Adjacent Guest Rooms with connecting doors that can be rented as separate units are considered separate Guest Rooms. The initial number of approved Guest Rooms will be identified on Exhibit A to the Franchise Agreement.

## **Other Initial Fees**

Prior to the execution of the Franchise Agreement, you must pay us \$5,000 (“PIP Fee”) to cover our costs to perform an initial inspection of your property, prepare a property improvement plan (“PIP”), and verify completion of the PIP. The PIP will set forth a list of property improvements that you must make to convert your property to a Brand Hotel under the Brand Standards. The PIP Fee is non-refundable. If we are required to reinspect your Hotel to ensure you have complied with the PIP, you must pay us a PIP reinspection fee of \$5,000. If you do not begin the renovation of your Hotel by the scheduled start date, you will pay us a renovation start date extension fee in the amount of \$5,000. These fees will be due when billed and are non-refundable.

You will pay us a training fee in the amount of \$5,000 for the pre-opening brand training we provide to you. The initial training fee is due when you sign the Franchise Agreement and is non-refundable. You must also reimburse us for our personnel’s travel, meals, and lodging expenses, which we estimate to be \$1,500 to \$2,500. You will also pay us between \$5,000 and \$15,000 to conduct Sonesta Guest Experience Opera Training for you. These costs are due when billed and are non-refundable.

You must pay us to install certain components of your Hotel’s IT system and property management system. The components you implement for your Hotel will depend upon the complexity of your Hotel, such as the size and location, and the existing systems in your Hotel. You will pay us an IT implementation services fee ranging from \$15,000 to \$52,000. The invoice for these fees will not be issued to you until the first day of the calendar month after the opening of your Hotel. If your Hotel requires certain custom architecture and design review by us, you will pay us up to \$25,000 for those services. These fees are non-refundable.

You must install, and complete the necessary training for, the revenue management system (“RMS”) that we designate. We estimate these costs to be between \$4,900 to \$10,450, which are paid to us on behalf of the third-party service provider. These costs are non-refundable.

If you need us to review and process a lender comfort letter in accordance with the conversion of your Hotel, you must pay us \$2,000 to cover our administrative fees for such review. This fee is non-refundable.

### **ITEM 6. OTHER FEES**

<b>TYPE OF FEE</b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS (Note 1)</b>
Royalty	5% of Gross Rooms Revenue	Payable monthly by the 20 <sup>th</sup> day of the following month	See Note 2.
Brand Promotion Fund	3.5% of Gross Rooms Revenue	Payable monthly by the 20 <sup>th</sup> day of the following month	See Note 2. We may increase the Brand Promotion Fund contribution up to 4.5%, upon notice to you.

<b>TYPE OF FEE</b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS (Note 1)</b>
Loyalty Program	4.5% of Qualified Room Revenue	Payable monthly by the 20 <sup>th</sup> day of the following month	See Note 3.
Reservation Fees	\$2.00 to \$10.00 per reservation	Payable monthly by the 20 <sup>th</sup> day of the following month	See Notes 4, 5 and 6.
Travel Agency Commissions	10% of TAC Consumed Revenue	Payable monthly by the 20 <sup>th</sup> day of the following month	See Note 7
Travel Agency Commission Settlement Fee	Currently up to \$0.85 per transaction	Payable monthly by the 20 <sup>th</sup> day of the following month	See Note 8.
Meetings and Events Commission	5% on consumed master folio per group	Payable monthly by the 20 <sup>th</sup> day of the following month	This is a Sales Administrative fee charged by us to help defray some of the costs incurred by us in generating certain business for you.
Travel Management Company ("TMC") and Consortia Fees	\$3.50 per room night (in addition to standard travel agency commission)	Payable monthly by the 20 <sup>th</sup> day of the following month	If you receive reservations through TMCs or consortia, you will pay a listing fee set by the TMC or consortia. You also will be responsible for any commissions or other remuneration payable to the TMC or consortia participant.
Technology Fee	Up to \$16.00 per Guest Room per month	Payable monthly by the 20 <sup>th</sup> day of the following month	Includes services such as, but not limited to an allocation of Sonesta infrastructure and hotel support costs, Opera PMS Support, and Sonesta data exchange interfaces. The Technology Fee does not include the cost, installation, maintenance or repair of any equipment at your Hotel.
Email	\$5 per month per email account	Payable monthly by the 20 <sup>th</sup> day of the following month	The first three email addresses for your Hotel are included in the Technology Fee. This fee will apply for any additional email accounts you need beyond the first three.

<b>TYPE OF FEE</b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS (Note 1)</b>
Corporate Account Support Subscription and Services	Up to \$1,000 per year	Payable annually in advance or monthly (as we require)	Includes hotel profile creation and ongoing management in the Cvent RFP management system, RFP bid submissions, and GDS rate code mapping. Prices are subject to change.
Guest Relations Fee	After the first four Guest Relations cases in a calendar year, \$25 to \$125 per issue	Payable monthly by the 20 <sup>th</sup> day of the following month	See Note 9.
Online Review Response Fee	\$39 to \$150 per response	Payable monthly by the 20 <sup>th</sup> day of the following month	See Note 9.
Quality Assurance Annual Inspection	Currently, \$2,000 once per year, plus appropriate and customary travel, lodging, and meals. If your Hotel fails the quality inspection, a re-inspection will be required at an additional fee of \$4,000 plus appropriate and customary travel, lodging, and meals.	As incurred	Inspection and travel fees shall be paid to SRLHF, its affiliate or a third party, as applicable, for the inspection process. Prices are subject to change. See Note 10.
Quality Assurance and Guest Satisfaction Deficiency Remediation	Up to \$5,000 per occurrence	As incurred	See Note 10.
Brand Conference Fee	Currently, \$1,200 per person	Prior to attendance at the Brand Conference	We periodically may increase the conference fee.
Initial Brand Training Fee	\$5,000, plus travel costs and expenses	As incurred	Currently, our initial brand training program is 3-5 days, conducted on-site at a cost of \$5,000 plus travel costs and expenses. Your general manager and director of sales or sales lead must complete our initial training for certification prior to opening or within 90-days of activating your hotel in our system. See Item 11.

TYPE OF FEE	AMOUNT	DUE DATE	REMARKS (Note 1)
Ongoing Training Fees	In-person/on-site: \$1,500/day, plus travel costs and expenses  Virtual Ad-Hoc: \$500 per day of training for you and your Hotel staff	As billed	Ongoing brand training is conducted in-person/on-site or virtual ad hoc. If you request that we send a trainer to your Hotel, you will pay additionally for the travel, living and miscellaneous expenses our trainer incurs to provide that training. There are no additional travel costs and expenses if training is conducted virtually.
Non-Compliance Fee	1% of Gross Rooms Revenue per month of non-compliance	Upon demand	If we deliver you notice of your breach under the Franchise Agreement, you may be assessed a non-compliance fee until such default has been remediated or cured.
Late Payment Charge	Lesser of 1.5% per month or the maximum rate permitted by applicable law	Upon demand	You may be assessed a late payment charge if you do not make any payment when due. Our acceptance of your payment of any deficiency will not waive our right to terminate the Franchise Agreement under its terms.
Reactivation Fee	Currently, the lesser of 25% of past due balances or \$2,000	Prior to reactivation	If we have suspended your Hotel from the Reservation System because of a default under your Franchise Agreement, and you have cured the default, we may require you to pay this fee as a condition of reactivation.
Insurance	\$500 per month, plus reimbursement for all premiums, costs and expenses we incur	As billed	If you do not obtain or maintain the required insurance or policy limits described in the Brand Manual, in addition to a fee of \$500 per month, we may (but are not obligated to) obtain and maintain insurance for you without first giving you notice. See Item 7.



<b>TYPE OF FEE</b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS (Note 1)</b>
Taxes	Varies	Upon demand	If any sales, use, gross receipts or similar tax is imposed on us for the receipt of any payments you are required to make to us under the Franchise Agreement, then you also must pay this tax to us.
Indemnification	Varies	Case by case basis as incurred	You must reimburse us if we are held liable for claims arising from any claimed occurrence at your Hotel or any default under your Franchise Agreement, including attorneys' fees and court costs we reasonably incur to protect us, our parent, subsidiaries or affiliates.
Transfer Fee	50% of then-current Initial Fee	Upon or before execution of the Franchise Agreement by transferee	If there is a proposed transfer and the proposed transferee desires to continue to operate your Hotel as a Brand Hotel, the proposed transferee must submit an application for a new franchise agreement. You or the transferee will pay the transfer fee. No transfer fee will be due if the transfer is to a spouse following the spouse's death.
Renewal Fee	50% of then-current Initial Fee	Upon or before execution of the renewal Franchise Agreement	
Administrative Fee for Other Requests	Up to \$5,000 per request, and any additional costs we may incur in reviewing your documents and preparing such instrument, including reasonable attorneys' fees.	When you submit request	Administrative, legal review, and document preparation fees arising from extraordinary services such as amendments you request; amendments necessitated by your action or inaction (such as a lease amendment); documentation approving any transfer, securities filing or entity name change; and similar services.

TYPE OF FEE	AMOUNT	DUE DATE	REMARKS (Note 1)
PIP Fee	\$5,000 per PIP	Upon demand	At any time during the term of the Franchise Agreement, if we determine your Hotel is not in compliance with Brand Standards or online reviews or guest comments have raised concerns with your compliance with Brand Standards, or in connection with a Periodic Renovation (defined in Item 11) notice, we may issue a PIP to you and charge you a PIP Fee.
PIP Reinspection Fee	\$5,000 per occurrence	Upon demand	In connection with any PIP, if we must reinspect your Hotel because you failed to comply with the PIP or Brand Standards, we may charge you a \$5,000 reinspection fee.
Photography Expenses	Up to \$5,000	As incurred	During the term of the Franchise Agreement, if your Hotel undergoes significant renovations or you make improvements in accordance with a PIP, we may require you to hire a professional photographer to take new photographs of your Hotel. This fee is subject to change by the third party photographer.
Custom Architecture & Design Review	\$3,000 to \$25,000	Upon request	We may charge you this fee in connection with any Guest Room design review, public area review, and exterior review.
Default Remedies	You shall reimburse us for all our costs and expenses we incur to remedy your default.	Case by case basis as incurred	Our expenses may include attorneys' fees (including fees for in-house attorneys), court costs and non-legal fees reasonably incurred to protect us, our subsidiaries or affiliates or to remedy your default.

TYPE OF FEE	AMOUNT	DUE DATE	REMARKS (Note 1)
Lost Revenue Damages	Lost Revenue Damages shall be calculated as follows: (1) the lesser of 36 or the number of full and partial calendar months remaining in the Term, multiplied by (2) the aggregate of the Royalty fee and Brand Promotion Fund contribution percentages, multiplied by (3) the average monthly Gross Rooms Revenue of your Hotel during the 36 full calendar months immediately preceding the termination date; provided, that if, as of the termination date, your Hotel has not been operating for at least 36 months, the average monthly Gross Rooms Revenue shall be based on the average Gross Rooms Revenue of your Hotel for all full calendar months during the period commencing on the Opening Date and ending as of the last full calendar month immediately preceding the date of termination.	Within 15 days after date of termination	If we terminate the Franchise Agreement because of your default or if you terminate the Franchise Agreement without cause, you must pay us the Lost Revenue Damages as liquidated damages. You also must pay us the Lost Revenue Damages if your Hotel closes due to fire or other casualty, and either of us elects to terminate the Franchise Agreement in connection with such termination.
Liquidated Damages for Unauthorized Opening	\$5,000 per day that your Hotel is open without authorization and our costs, including attorneys' fees	Upon demand	If you open your Hotel before we authorize it to open as a Brand Hotel, you must pay us liquidated damages to compensate us for damage to our Marks. You also must reimburse us for our costs of enforcing our rights.
Failure to De-Identify	\$500 per day, plus our expenses	Upon demand	If you fail to comply with all of your de-identification obligations within 30 days after the expiration or termination of your Franchise Agreement, you must pay us this fee for each day in which you are in breach of your obligations. This is in addition to other damages and remedies to which we may be entitled under applicable law.

<b>TYPE OF FEE</b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS (Note 1)</b>
Revenue Management For Hire	\$695 to \$2,500 per month depending on room count, market and square feet of function space	Payable monthly by the 20 <sup>th</sup> day of the following month	Note 11 provides a description of this service which is required unless your Hotel has a Revenue Manager who meets our criteria. Fees are subject to change.
Revenue Management System	\$41.25 per Guest Room per year	Annually	Fees for ongoing system maintenance and support.
Market Intelligence	Up to \$250 per month	Payable monthly by the 20 <sup>th</sup> day of the following month	Includes property-specific market benchmarking and rate shopping tools.
American Hotel & Lodging Association Fee ("AHLA")	\$4.50 per room per year	Payable monthly by the 20 <sup>th</sup> day of the following month	You will be enrolled automatically as a member of the AHLA each year, but you will be given an opportunity, on an annual basis, to opt out of participation. While enrolled, you will pay this fee to us, which we will remit to the AHLA.
Reservation System Maintenance Fee: Future Rate and Inventory	\$250 – 1 <sup>st</sup> occurrence \$500 – 2 <sup>nd</sup> occurrence \$1,000 – per occurrence thereafter	Payable monthly by the 20 <sup>th</sup> day of the following month	We charge this fee if you fail to meet our performance standard of maintaining on the Central Reservation System at least 12 months of your advance room rates and inventory at all times.
Reservation System Maintenance Fee: Central Reservation System Services	\$150 per occurrence	Payable monthly by the 20 <sup>th</sup> day of the following month	You incur this fee if you request additional assistance with performing Central Reservation System maintenance.
Paper Check Fee	\$25 processing fee per each occurrence.	As billed	
Guest Room Addition Fee	The greater of \$500 per additional Guest Room or \$5,000	When you submit an application to add Guest Rooms	If you add or construct additional Guest Rooms at your Hotel after signing the Franchise Agreement, you will pay us this fee.

TYPE OF FEE	AMOUNT	DUE DATE	REMARKS (Note 1)
Audit	Cost of audit, including the charges of attorneys and independent accountants and the travel expenses, room and board, and compensation of our employees	As billed	This is payable only if we find that you have underreported Gross Rooms Revenue by 2% or more, or if the audit is caused by your failure to provide reports, records or other information.

Note 1 - Unless otherwise indicated, all fees described in this Item 6 are payable to us and are non-refundable. Fees may not be uniform for all franchisees. You will authorize us to debit your checking, savings, or other account automatically for Royalty, Brand Promotion Fund contributions, and other amounts due to us or our affiliates. We may process the transfers at the time any payment is due and owing. If we permit you to pay by any other means, we may condition our approval on the payment of a convenience fee (currently \$25 per transaction). We also may periodically change your required method of payment upon notice to you.

Note 2 – Your obligation to make monthly payments of Royalty and Brand Promotion Fund contributions will begin on the earlier of (a) the Opening Date, or (b) the date you begin operating your Hotel under the Marks. “Opening Date” means the designated date you are required to open your Hotel, as provided on Exhibit A to the Franchise Agreement, unless we otherwise agree in writing. If you sign a Franchise Agreement in connection with the acquisition of an existing Sonesta Hotels and Resorts-branded hotel, such fees will be due beginning on the first day of the calendar month that immediately follows the closing of your acquisition. You will be responsible for all booking and transaction fees incurred in connection with reservations made or consumed for your Hotel, and you must make payments for all other fees and commissions from the time those fees are incurred, regardless of the Opening Date of your Hotel.

“Gross Rooms Revenue” means all revenue attributable to or payable for rental of Guest Rooms at your Hotel, whether from cash, check, credit and debit card, barter exchange, trade credit, or other credit transactions, whether or not collected, including guaranteed no-show revenue, revenue calculated on reservations cancelled outside of your Hotel’s cancellation policy or outside of the reservation channel in which it was made, any proceeds actually received from any business interruption or similar insurance applicable to the loss of revenue due to the non-availability of Guest Rooms, and any miscellaneous fees charged to all guests regardless of the accounting treatment of such fees. Gross Rooms Revenues shall not include (1) any federal, state, or municipal sales, use, or occupancy taxes collected from customers and paid to the appropriate taxing authority, and (2) gratuities to employees or service charges levied in lieu of such gratuities, which are payable to employees.

If you fail to report your Hotel’s Gross Rooms Revenue, we may debit your account for 110% of the average of the last three (3) Royalty and Brand Promotion Fund contributions that we debited. If the amounts that we debit from your account are less than the amounts you actually owe us (once we have determined the true and correct Gross Rooms Revenue), we will debit your account for the balance on the day we specify. If the amounts that we debit from your account are greater than the amounts you actually owe us, we will credit the excess against the amounts we otherwise would debit from your account during the following week.

Note 3 – Your Hotel must participate in the loyalty program (as it may be modified) for as long as we choose to offer a loyalty program. See Item 11 for additional details related to our

current loyalty program. The loyalty program contribution is currently 4.5% of Qualified Room Revenue. "Qualified Room Revenue" includes (a) Qualifying Room Rates (defined below), and (b) at our discretion, any other items charged to the loyalty program member's room not defined in item (a). "Qualifying Room Rates" include: (1) non-discounted rates; (2) standard corporate rates; (3) leisure rates; (4) government rates; (5) corporate and negotiated rates; (6) conference and meeting rates; and (7) individual Hotel contract rates.

Note 4 – You must participate in reservation systems that we make available. Reservation fees will be charged for cancelled reservations unless they are cancelled through the same channel in which they were made.

Note 5 - Each reservation is subject to the following fees, as applicable: \$1.75 per transaction through Direct Connect interfaces to associated onward distribution channels; \$3.50 per transaction through the Brand-dedicated website; \$3.80 per transaction through the Internet Distribution System to onward distribution switch or channel manager providers; \$9.50 per transaction sourced from the Global Distribution Systems; \$7.00 per transaction made through the Central Reservations Office (Voice); \$7.00 net reservation sourced from Hotel to Central Reservations Office Call Program; and \$5.00 per reservation sourced from TMC Direct Connect. Separately, you must pay all other costs, including third party costs and fees incurred through the Central Reservation System. Fees are subject to change. Booking fees will be charged for cancelled reservations unless they are cancelled through the same channel in which they were made.

Note 6 - Your Hotel may wish to manage its CRO costs through the use of an optimized interactive voice recording ("IVR"), a recording that directs all new reservation calls to the CRO. Calls to the CRO are \$3.50 per call for Brand Hotels using an optimized IVR and \$4.75 per call for Brand Hotels not using an optimized IVR. Calls resulting in a reservation will be charged an additional \$1.50 per call for Brand Hotels using an optimized IVR and an additional \$2.75 per call for Brand Hotels not using an optimized IVR. We will provide the voice recordings and you may select the IVR provider or use a provider that is an Approved Supplier. Additional services may be provided by the CRO for additional fees.

Note 7 – We have entered into agreements with intermediaries for various distribution channels, pursuant to which such distribution channels and online travel agencies ("OTAs") (which may include Priceline, Booking.com, Hotwire, Expedia, and other third party intermediaries providing travel products for sale electronically to travel agents, corporations, meeting planners, and consumers) will offer your hotel room inventory through their websites including, in some cases, rooms at loyalty program member rates (the "Third-Party Distribution Program"). You must participate in the Third-Party Distribution Program. As a participant, you must pay the customary minimum of 10% of TAC Consumed Revenue, or another percentage we may designate, for the travel agent or referral source booking. "TAC Consumed Revenue" means the gross revenue generated from bookings consumed through our Third-Party Distribution Program.

Note 8 – We may use, or require you to use, a travel agent commission settlement program operated by a third-party provider selected by us. We expect settlement fees to be no more than \$0.85 per transaction, but this fee may periodically change as third-party fees increase. These settlement fees may be paid directly to the third-party provider or we may collect them and further remit your payment to the third-party provider, less an administrative fee per transaction.

Note 9 – Under our Guest Relations Program, you will pay us a \$25 fee for every guest or other complaint we receive after the first four Guest Relations cases in a calendar year. If the issue raised is not resolved within 48 hours of our communication to your Hotel, then the fee will be raised to \$75. If it becomes necessary for us to resolve it, then the fee will be raised to \$125 per issue, plus the cost of the resolution (such as a refund provided to a guest). Under our Online Review Response Program, if you do not respond to any negative online reviews within 72 hours of the posting of such reviews, we may do so (directly or through a third-party) on your behalf, in which case you will pay us \$39 for each response. These fees may increase based on the frequency and nature of complaints and negative reviews, and your responsiveness (e.g., the time it takes you to respond to guest reviews).

Note 10 – You must participate in all required quality assurance programs and maintain minimum performance standards and scores that we may establish as required by the Brand Standards. We may provide these programs through our affiliates or agents. We (or our affiliates or agents) will conduct an evaluation of your Hotel using the Brand Standards. Your Hotel will be inspected a minimum of one time per year, and you will pay an initial inspection fee of \$2,000 each year. The inspection entails a review of hotel operations. At the conclusion, the results, in a written and numerical report, will be provided to your Hotel management and to us. Your Hotel must write off folio charges (room, tax, food and beverage and incidental charges) for the inspector. We may require additional inspections if your Hotel's total score is below an acceptable level, and we may charge \$4,000 for each additional inspection. You must pay the costs of all inspections. The cost, frequency and methodology of inspections may change from year to year. We may waive your obligation to undergo a quality assurance inspection in a given year based on your Hotel's performance in the preceding year; if you nevertheless request an inspection, you will be required to pay the foregoing fees. If you persistently fail quality assurance inspections, or a quality assurance inspection is necessary to remediate guest satisfaction deficiencies, you may be required to pay up to \$5,000 for such remediation inspection.

Note 11 – Our centralized “revenue management for hire” (“RMFH”) program provides you with the services of a Director of Revenue Strategy. This includes a revenue management specialist providing direct oversight over all aspects of subscribing hotels’ price positioning, inventory management and distribution strategies and management of the RMS. We require the use of our RMFH program if you do not have a person carrying the title of Director of Revenue Management, Inventory Manager, Revenue Manager, Revenue Analyst, or a similar position with demonstrated proficiency in our RMS and who otherwise meets our requirements (such as formal training or sufficient experience hotel revenue management) (the “Hotel Revenue Manager”). We may require that your Hotel Revenue Manager be trained on our RMS at your cost (anticipated not to exceed \$5,800 per person).

**ITEM 7. ESTIMATED INITIAL INVESTMENT**

**SONESTA ES SUITES CONVERSION (Note 1) – 100 ROOMS**

<b>YOUR ESTIMATED INITIAL INVESTMENT</b>				
<b>Type Of Expenditure</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is To Be Made</b>
Application Fee	\$2,000	Lump Sum	Upon submission of your Application	Us

<b>YOUR ESTIMATED INITIAL INVESTMENT</b>				
<b>Type Of Expenditure</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is To Be Made</b>
Initial Fee (Note 2)	\$63,000	Lump Sum	Upon your signing of the Franchise Agreement	Us
Revenue Management System Installation and Training (Note 3)	\$4,900 to \$10,450	As arranged	Before opening your Hotel	Us
IT Implementation Services Fee (Note 4)	\$15,000 to \$52,000	As arranged	Before opening your Hotel	Us
Property Management System Hardware & Installation Fee (Note 5)	\$45,000 to \$60,000	As arranged	Before opening your Hotel	Suppliers
Sonesta Guest Experience Opera Training (Note 6)	\$5,000 to \$15,000	As arranged	Before opening your Hotel	Us
Ancillary System Hardware, Network, Administration (Note 7)	\$20,000 to \$90,000	As arranged	Before opening your Hotel	Suppliers
Digital Floor Plan (Note 8)	\$0 to \$1,000	As arranged	Before opening your Hotel	Supplier
PIP Fee (Note 9)	\$5,000	Lump sum	Before you sign the Franchise Agreement	Us
PIP Reinspection Fee (Note 10)	\$0 to \$5,000	Lump sum	As incurred	Us
Custom Architecture & Design Review (Note 11)	\$0 to \$25,000	As arranged	As arranged	Us
Renovation Start Date Extension Fee (Note 12)	\$0 to \$5,000	Lump sum	As incurred	Us
Initial Training Fee and Expenses (Note 13)	\$6,500 to \$7,500	Lump sum	Upon your signing of the Franchise Agreement	Us
Initial Training Expenses (Note 14)	\$4,500 to \$8,500	As arranged	As arranged	Suppliers and employees
Lender Comfort Letter Fee (Note 15)	\$2,000	Lump sum	As incurred	Us
Conversion Remodeling Expenses (Note 16)	\$400,000 to \$4,000,000	As arranged by you	Before opening your Hotel	Contractors, vendors, governmental agencies and suppliers



<b>YOUR ESTIMATED INITIAL INVESTMENT</b>				
<b>Type Of Expenditure</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is To Be Made</b>
Initial Operations, Pre-Opening Expenses, Marketing and Advertising Expenses (Note 17)	\$50,000 to \$150,000	As arranged	As arranged	Suppliers and professional advisors
Signage (Note 18)	\$25,000 to \$100,000	As arranged	As arranged, before opening	Suppliers
Insurance (Note 19)	\$4,000 to \$35,500	As arranged	As arranged	Insurer
Branded Landing Page Installation (Note 20)	\$2,000 to \$15,000	Lump Sum	Upon implementation	Suppliers
Guest Wi-Fi and In-Room Entertainment Installation (Note 21)	\$25,000 to \$50,000	As arranged	As arranged	Suppliers
Photography Expenses (Note 22)	\$0 to \$5,000	As arranged	As arranged, before opening	Supplier
Additional Funds (during the first 3 months of operation) (Note 23)	\$400,000 to \$550,000	As arranged	As arranged	Employees, suppliers, utilities
<b>TOTAL</b>	<b>\$1,078,900 to \$5,256,950</b>			

Note 1 – We have estimated costs based on the conversion of a 100-room Sonesta ES Suites-branded hotel. None of the fees payable to us are refundable. Amounts payable to third parties are non-refundable unless the supplier agrees otherwise.

Note 2 – The Initial Fee of \$63,000 is based on the assumption that your Hotel has 100 Guest Rooms, minus your Application Fee, which is credited against the Initial Fee.

Note 3 – The installation of the RMS will cost \$4,900. If you participate in our RMFH program, then you will not be required to pay for RMS training. However, if you do not participate in our RMFH program, your revenue management specialist must complete necessary RMS training, which will comprise of (a) on-site training, costing \$5,550 plus travel and lodging expenses (which we estimate to be between \$1,500 and \$2,500), or (b) virtual training, costing \$2,750. While our designated third-party service provider will install, and conduct training for, the RMS, you will pay these costs to us on behalf of the third-party service provider.

Note 4 – This estimate includes the central reservation system and interface builds, Sonesta IT project management implementation services relating to our specified solutions, including a comprehensive site survey, coordination with your Hotel's general contractors for systems installation and schedule, and installation of our required systems. This estimate includes travel and other expenses for our personnel, which we anticipate to be \$5,000 to \$12,500.

Note 5 – This fee is dependent on certain components of your Hotel that must be activated and the complexity of your Hotel, such as the size and location. For Brand Hotels with 1 to 100

Guest Rooms, this fee ranges from \$45,000 - \$60,000; for 101 to 175 Guest Rooms, this fee ranges from \$61,000 - \$75,000; for 176 to 250 Guest Rooms, this fee ranges from \$76,000 - \$90,000; for 251 or more Guest Rooms, this fee may be \$91,000 or more. Some of this fee is passed through to third parties for the various components.

Note 6 – This estimate includes Sonesta Guest Experience Opera Training on the use of Opera and the interconnected hospitality systems. This training is used to assist each Brand Hotel to streamline existing business processes, be compliant with Brand Standards, increase system awareness, and assist in resolving any known issues with regards to using property systems in a property's daily operations.

Note 7 – We may require you to purchase new workstations, servers, network switches and firewall walls, and added software and solutions to support our technology operating standards and security solutions. This may include credit card readers for PCI and EMV compliance, the upgrade or replacement of PCs and laptops if they are older than 4 years, and the replacement of switches and firewalls should they be not compatible with our required systems.

Note 8 - This estimate includes the cost of developing a digital floor plan of your Hotel.

Note 9 – The PIP will set forth a list of all items you must perform prior to the opening of your Hotel (or within some other timeframe stated in the PIP) to convert your property to a Brand Hotel in accordance with the Brand Standards. The PIP Fee covers the cost of preparing or verifying completion of that PIP.

Note 10 – If we have to reinspect your Hotel because you fail the PIP inspection, we may charge you an additional PIP fee.

Note 11 – This fee will only be required if your conversion requires elaborate remodeling to meet our Brand Standards.

Note 12 – This fee is payable only if you request and we agree to grant an extension of the renovation start date identified in your PIP.

Note 13 – Your general manager and director of sales or sales lead must complete, to our satisfaction, our initial training program. The training fee is conducted on-site at your Hotel at a cost of \$5,000. You must also reimburse us for our personnel's travel, meals, and lodging expenses, which we estimate to be \$1,500 to \$2,500. These costs are due when billed and are non-refundable. The amount expended will depend on the distance those persons must travel and the type of accommodations chose. The estimate contemplates attendance of two people for 4 to 10 days of training at your Hotel, which includes the Sonesta Guest Experience Opera Training.

Note 14 – We estimate that you will pay \$1,000 to \$2,000 for accommodations and wages for your employees during the initial training program. We also require training for the operation of our central reservations systems, and the related management of rates, dates, and availability strategies for the support of effective distribution of your Hotel's rooms in the central reservations system, OTAs, ADS and Internet Booking Channels. We estimate the costs for that training to be \$1,000 to \$4,000, which is provided by, and paid directly to, a third-party supplier. You will also be required to pay the supplier of Opera for additional training, which we estimate to be \$2,500.

Note 15 – This is to cover our administrative fees arising from review and processing of lender comfort letter requests.

Note 16 – You will incur costs to bring your existing property into conformity with the Brand Standards as specified in your Franchise Agreement. This estimate includes the costs of certain permits, plans, architectural and engineering fees, testing and contingency expenses, furniture, fixtures, equipment and other general conversion expenses necessary to conform with the Brand Standards. However, these costs will vary depending on (a) the condition of your Hotel and its existing furniture, fixtures and equipment, (b) the size and configuration of the premises, (c) the costs of materials and labor, (d) the location of the premises and local conditions, and (e) whether you need any additional license or permits that you do not already hold for your Hotel.

Note 17 – These amounts include additional estimated expenses for the approximate three-month period prior to your Opening Date, including startup expenses, such as utilities and security deposits, labor costs, pre-opening marketing costs and costs of professional advisors. Your market, your pace of ramping up your Hotel's occupancy and average daily rate, the seasonality of your opening, the quality of your property management team, and other factors will impact the funding you require for this category of expense.

Note 18 – This estimate includes a vendor site survey (if needed); and fabrication and installation of exterior signage. The estimate includes the cost of painting cabinets and poles but does not include any electrical/wiring; permits; or freight/shipping. Your actual cost will depend on factors such as the sign size, material, height, ease of access, and equipment needed for the location, and may exceed the estimates indicated.

Note 19 – You must maintain, at your expense, insurance of the types and in the minimum amounts we specify, whether in the Brand Manual or otherwise in writing. This insurance must be with insurers having minimum ratings we specify, name as additional insureds the parties we specify, and carry the endorsements and notice requirements we specify, whether in the Brand Manual or otherwise in writing. Insurance premiums vary widely by reason of location, size of hotel and type of coverage purchased and are difficult to estimate.

Note 20 – You must install a branded landing page for your Hotel.

Note 21 – You must maintain wireless highspeed internet access meeting our minimum specifications (including as relates to bandwidth, multiple device usage, area coverage and security). This also includes the cost to install the required guest in-room entertainment system, which is based on the number of Guest Rooms, servers, and entertainment devices.

Note 22 – We may require you to hire a professional photographer to take photographs of your Hotel prior to the opening of your Hotel.

Note 23 – Additional funds are those funds required during the first three months of operation, including payroll costs, utility costs and expendable supplies. They also include the costs of travel agent commissions, costs charged by telecommunications carriers for connection to the central reservation system, and internet access for special marketing programs, all of which you currently must pay directly to the providers. In the future, we may pay the providers on your behalf and then bill you for those amounts plus a reasonable transaction charge to cover our costs. Your costs will vary depending upon factors such as your management skill, experience and business acumen; local economic conditions; prevailing wage rates; and competition. This

does not include royalties, brand promotion fund contributions, booking fees, or management fees.

Except as provided in Item 10, we do not finance any portion of your initial investment. We have relied on our and our affiliates' management's years of experience in the lodging business to compile these estimates.

## **ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

### **Standards and Specifications**

In order to maintain quality and uniformity among Brand Hotels, each Brand Hotel must meet the Brand Standards. These standards require that your Hotel and most of the items you use or sell at your Hotel meet our specifications. You must strictly comply with all Brand Standards. In renovating and operating your Hotel, you must use only those products, supplies, equipment, furnishings, and services that we have approved according to our Brand Standards for appearance, function, and performance, including: the furniture, fixtures, and equipment ("FF&E"); operating supplies and equipment ("OS&E"); décor; layout and floorplan; signage; advertising materials; uniforms; photography; operating supplies; guest room amenities; consumable inventories; food and beverage services; wireless high-speed internet access; in-room entertainment; Computer System, including Central Reservation System, Property Management System, and Revenue Management System; insurance; telephone; security items; and such other products and services for which we periodically issue Brand Standards (collectively, the "Supplies"). The Brand Standards may include minimum requirements for delivery, performance, design, and quality of the Supplies. We will provide you this information in our Brand Manual, which we may revise from time to time, or otherwise in writing.

You must procure and maintain, at your expense, insurance coverage in the amounts we periodically require, in addition to any other insurance that may be required by applicable law or otherwise. At a minimum, such policies include the following:

- commercial general liability (CGL) insurance for any claims or losses arising or resulting from the operations/premises of the property with combined single limits of \$1,000,000 per occurrence for bodily injury and property damage liability and a general aggregate limit not less than \$3,000,000. Limits may be met by a combination of CGL and umbrella or excess liability insurance policies on a follow form basis, with a combined limit not less than \$4,000,000;
- business interruption insurance covering at least 12 months loss of profits and necessary continuing expenses for interruptions caused by a covered occurrence;
- property and contents insurance (or builder's risk insurance during any period of construction) on all building(s) and contents against loss or damage by fire, lightning and all other risks associated and covered by the "all risks" policy form (including earthquake and flood extended coverage), all in an amount not less than 75% of the replacement cost;
- workers' compensation insurance in statutory amounts for all your employees and employers' liability insurance in amounts not less than \$1,000,000 per accident or disease;

- liquor liability (applicable only when or if you distribute, sell, serve, or furnish alcoholic beverages) for combined single limits of bodily injury and property damage liability of not less than \$1,000,000 per occurrence;
- automobile liability insurance including owned, non-owned and hired vehicles for combined single limits of bodily injury and property damage of not less than \$15,000,000 per occurrence;
- umbrella or excess liability insurance policies as follows: (i) if your Hotel is three stories or less, then you must acquire a policy with coverage of at least \$14,000,000, or (ii) if your Hotel is more than three stories, then you must acquire a policy with coverage of at least \$24,000,000;
- cyber liability insurance in the amount of not less than \$1,000,000 per occurrence; and
- terrorism risk insurance covering the full replacement cost of your Hotel, its contents, and business interruption.

We periodically may change the amounts of coverage required under the insurance policies and require different or additional kinds of insurance at any time to reflect inflation, identification of new risks, changes in law or standards of liability, higher damages awards, or other relevant changes in circumstances. Your insurance must be written by an insurance company with a Best rating of “A” or better. You must provide us with 30 days’ written notice of material changes to or cancellation or expiration of any policy. You must provide us with copies of all insurance policies, together with certificates of insurance, on an annual basis. Your insurance policies must contain a waiver of subrogation. You also must provide us with a certificate of insurance naming us and any affiliates we designate as additional insureds for all liability coverage policies, using a form of endorsement we have approved.

### **Approved Suppliers**

To facilitate consistency and quality among Brand Hotels and our ability to leverage volume purchasing power, we reserve the right to approve or designate all vendors and suppliers of Supplies and services you use in developing, operating and promoting your Hotel. We may designate a sole supplier or approved suppliers (which may be us or our affiliates) (the “Approved Suppliers”) from which you will be required to purchase certain Supplies, and you will purchase those Supplies only from the Approved Suppliers when required. We will provide the list of Approved Suppliers to you. We may provide your contact information to our Approved Suppliers and you may be contacted by our Approved Suppliers. We provide access to a third-party online procurement platform customized for the Network Brands, and we may require you to make certain purchases through that platform. Although we have the right to require the platform or Approved Suppliers to charge you a 2% to 3% procurement fee, which would be remitted to us, we currently do not require them to charge such fee. We currently do not maintain any other purchasing or distribution cooperatives.

None of our officers or affiliates own a material interest in any Approved Supplier. However, from time to time, our officers may own non-material interests, for investment purposes only, in publicly-held companies that are suppliers to Brand Hotels.

Neither we nor any of our affiliates currently is an Approved Supplier, although we may designate ourselves or an affiliate as an Approved Supplier (including as an exclusive supplier). You periodically may pay us for purchases from designated third parties.

If you want to purchase goods or services from an unapproved supplier, then you may submit a written request for us to approve the supplier. You must submit to us all information, specifications and samples that we request. Any goods or services from suppliers must be in accordance with Brand Standards. We will review all of the pertinent information. While we have no obligation to respond within a certain time frame, our review typically takes 30 days to complete. We have the right to require as a condition of our approval that our representatives are permitted to inspect the supplier's facilities, and that the supplier attend our brand conference and enter into our then-applicable supplier agreement. We currently do not charge a fee for the supplier approval process, but we may do so. We may change our approval process or supplier criteria at any time. If we approve a supplier as to any goods, services, suppliers or materials, we must grant our approval in writing. We may condition our approval of a supplier on certain requirements, such as delivery frequency, standards of service (including prompt attention to complaints), concentration of purchases, insurance protection, the supplier's willingness to enter into indemnity and confidentiality agreements, payment of reasonable license fees (if Marks are used), and other criteria. Other than this description of our criteria, we do not disclose any further details of our criteria for approving suppliers to franchisees.

We may approve suppliers on a temporary basis and/or revoke approval of Approved Suppliers based on our criteria for approving suppliers, and if that happens, we will provide reasonable written notice of such disapproval to you. We do not provide any material benefit to a franchisee based on a franchisee's use of designated or pre-approved suppliers, except that your purchase or lease of goods or services as required is an essential element of your compliance with the Franchise Agreement and the Brand Standards, and your failure to do so is a breach of the Franchise Agreement and may result in your loss of material benefits, up to and including the termination of the Franchise Agreement.

We may negotiate purchase arrangements with Approved Suppliers, which we currently anticipate will be volume-based pricing. We may receive volume-based allowances from certain Approved Suppliers with whom we have negotiated contracts, generally as a percentage of net or gross sales made by franchisees or by Network Hotels we own or manage. The allowances we receive generally range from 2% to 5% of net or gross sales on such items as FF&E, operating supplies and equipment, merchant processing, and food and beverage products from purchases made by franchisees or by Network Hotels we own or manage.

### **Required Purchases from Approved Suppliers**

You must install, display, and maintain signage displaying or containing the Marks and other distinguishing characteristics in accordance with Brand Standards we establish for Brand Hotels. You must purchase the signage for your Hotel from an Approved Supplier. There may be only one Approved Supplier for various Supplies, which may include us or an affiliate.

Some, but not all equipment and supplies necessary to meet Brand Standards and other brand defining standards, must be purchased from an Approved Supplier, and in some cases, only one Approved Supplier. Currently this includes some FF&E, OS&E and other operating supplies such as food products.

You must use the booking engine we designate and may not use any other booking engine for your Hotel. You will be responsible for all booking fees payable to us or to third-parties for reservations made for your Hotel through the booking engine, as well as fees due to us or to third parties, such as travel agents for groups booked directly at your Hotel.

**General**

In the year ended December 31, 2020, RLHC received \$138,475 from vendors based on purchases by all Network Hotels (including our franchisees, licensees, and owned and managed Network Hotels). Neither we nor any other affiliates received revenue from vendors based on franchisee purchases in fiscal year ended December 31, 2020. However, we and our affiliates may do so in the future.

During fiscal year ended December 31, 2020, RLHC and its affiliates and subsidiaries, on a consolidated basis, derived approximately \$10,157,530 from purchases of goods and services by franchisees and licensees of all Network Brands, which represents approximately 19.6% of RLHC’s total revenue of \$51,807,000.

We estimate that 15% to 20% of the required purchases and leases of goods and services used to establish a Brand Hotel, and 2% to 5% used to operate a Brand Hotel, are subject to our standards and specifications.

During the term of the Franchise Agreement and any term extensions, we may require you to make additional expenditures and investments to maintain your Hotel in accordance with the Brand Standards and to remove any deficiencies in your Hotel's operations.

**ITEM 9. FRANCHISEE’S OBLIGATIONS**

**This table lists your principal obligations under the Franchise Agreement and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this disclosure document.**

<b>FRANCHISEE’S OBLIGATIONS</b>		
<b>Obligation</b>	<b>Section in Franchise Agreement</b>	<b>Disclosure Document Item</b>
a. Site selection and acquisition/lease	Section 2.A, 2.B, and Exhibit A	Item 11
b. Pre-opening purchases/leases	Section 2.E	Items 5, 7, 8, and 11
c. Site development and other pre-opening requirements	Section 2	Items 7, 8, and 11
d. Initial and ongoing training	Sections 4.A through 4.C	Item 11
e. Opening	Section 2.E	Item 11
f. Fees	Sections 3, 12.C, 12.E, and 13.C	Items 5, 6, and 7

<b>FRANCHISEE'S OBLIGATIONS</b>		
<b>Obligation</b>	<b>Section in Franchise Agreement</b>	<b>Disclosure Document Item</b>
g. Compliance with standards and policies/operating manual	Sections 4.H, 8.C, and 8.L	Items 8 and 11
h. Trademarks and proprietary information	Sections 5 and 6	Items 13 and 14
i. Restrictions on products/services offered	Sections 8.B, 8.C, 8.J, and 8.K	Items 8 and 16
j. Warranty and customer service requirements	Sections 4.D, 8.H, and 8.K	Items 6, 8, and 11
k. Territorial development and sales quotas	Not Applicable	Item 12
l. Ongoing product/service purchases	Sections 4.G, 8.E, and 8.F	Items 6, 8, and 11
m. Maintenance, appearance and remodeling requirements	Sections 2.C, 8.A and 8.G	Items 8 and 11
n. Insurance	Section 8.I	Items 6, 7 and 8
o. Advertising	Section 9	Items 6, 7 and 11
p. Indemnification	Section 15.D	Item 6
q. Owner's participation/management/staffing	Sections 8.D and 8.N	Item 15
r. Records and reports	Section 10	Not applicable
s. Inspections and audits	Section 11	Items 5 and 6
t. Transfer	Section 12	Item 17
u. Renewal	Section 13	Item 17
v. Post-termination obligations	Sections 14.C through 14.H	Item 17
w. Non-competition covenants	Section 7.A	Item 17
x. Dispute resolution	Section 17.F	Item 17

## **ITEM 10. FINANCING**

We may, in our sole discretion, offer incentives for hotels that are new to the Sonesta brand. An "Incentive" is a financial contribution that we make to assist with the development or conversion of your Hotel, and will be in an amount that we determine. To receive an Incentive, you and your principals must sign a development incentive promissory note in the form attached



as Exhibit E (the “Incentive Note”), when you sign the Franchise Agreement. An Incentive does not have to be repaid unless the Franchise Agreement is terminated before its expiration date or a transfer occurs as described below. The Incentive will be disbursed to you within 10 days after your Hotel opens as a Brand Hotel with our approval, as long as you have completed any PIP and there have been no material adverse changes to your Hotel since approval (for example, a decrease in the number of Guest Rooms or a significant delay in opening as a Brand Hotel). For each year that your Hotel is open, the repayable amount is reduced by an equal annual percentage based on the term of the Franchise Agreement. For example, if the Franchise Agreement has a twenty-year term, the repayable amount is reduced by 1/20th of the original amount annually. If your franchise terminates before the expiration of the Franchise Agreement, you must pay us the then-current repayable amount of the Incentive. If you transfer your Hotel you also must pay us the then-current repayable amount of the Incentive. An Incentive bears no interest. However, if an Incentive becomes repayable and payment is not made in full when due, the outstanding amount is subject to interest at 18% per annum or the highest rate allowed by law, and we may collect court costs and attorneys’ fees incurred to collect the repayable amount of the Incentive. We may negotiate these Incentives when business circumstances warrant.

We do not require security interest under the Incentive Note. Each of your direct and indirect owners, with a 15% or more ownership interest in you, must sign the Guaranty and Assumption of Obligations attached as Exhibit D to the Franchise Agreement, personally guaranteeing your obligations under the Incentive Note.

The Incentive Note provides for a waiver of presentment, demand for payment, protest, notices of protest, dishonor, nonpayment of the Incentive Note and all notices of every kind are waived by you. We may grant renewals, extensions, modifications, compositions, compromises, releases or discharges of other parties without notice to any guarantor or co-maker.

It is not our practice or intent to sell, assign or discount to a third party all or part of the Incentive Note, nor do we receive any consideration for placing the Incentive Note with a lender.

Except for the development incentive program described above, neither we nor our affiliates offer, directly or indirectly, financing arrangements to franchisees nor do we guarantee any note, lease, or other obligations. This program may be modified, limited, extended or terminated at any time without advance notice.

## **ITEM 11. FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING**

**Except as listed below, we are not required to provide you with any assistance.**

### **Pre-Opening Assistance**

After you sign the Franchise Agreement, but before you open your Hotel, we will provide you the following assistance:

- Conduct an initial inspection of your Hotel and develop a PIP of improvements required for your Hotel to meet Brand Standards. You must complete renovation work on your Hotel in accordance with the PIP. (Franchise Agreement, Section 2.C(1))
- Review and approve your plans, layouts, specifications and drawings for your Hotel (the “Plans”) and your plans, layouts, specifications and drawings for the proposed furnishings, fixtures, equipment and décor of your Hotel (the “Designs”), at our election. You are

responsible for ensuring your Plans and Designs comply with all applicable laws, rules, permits, licenses, and other governmental requirements. (Franchise Agreement, Section 2.C(2))

- Inspect your Hotel, at our election, during or following renovation to determine compliance with the Brand Standards. (Franchise Agreement, Section 2.C(2))
- Provide you with initial training for two people for 4 to 10 days. You will then be responsible for training your own employees. (Franchise Agreement, Sections 4.A and 8.N)
- Provide you with on-site grand re-opening assistance. (Franchise Agreement, Section 4.A)
- Arrange a professional photography session at your Hotel, if necessary. (Franchise Agreement, Section 4.E)
- Provide you with a copy of the Brand Manual (currently, 114 pages). If we make the Brand Manual available electronically, you must monitor the website for updates. (Franchise Agreement, Section 4.H) The table of contents of the Brand Manual is attached as Exhibit H.
- If you elect to obtain a Management Company (defined in Item 15), or at any time during the term of the Franchise Agreement change the Management Company, provide our consent to the Management Company and your agreement with the Management Company, which consent we may withhold for any reason. (Franchise Agreement, Section 8.D)
- Provide you with a list of equipment, supplies, advertising materials, inventory and other products and services we require you to use to operate your Hotel and a list of approved or recommended suppliers of these items. (Franchise Agreement, Section 8.E)

In addition to the assistance described above, we may provide such additional assistance as we deem necessary or appropriate.

### **Operational Phase Obligations**

During the operation of your Hotel, we will:

- Provide required and optional training programs at various locations. (Franchise Agreement, Section 4.A)
- Convene a Brand Conference (no less frequently than every 12 months) at which franchisees may gather to network and participate in educational seminars. (Franchise Agreement, Section 4.B)
- Periodically advise you, at our election, regarding the operation of your Hotel. (Franchise Agreement, Section 4.C)
- Administer and manage a loyalty program, at our election. (Franchise Agreement, Section 4.D)

- Provide you access to our IT and franchise services help desk. (Franchise Agreement, Section 4.F)
- Provide you with the Third-Party Distribution Program, as long as that program remains in effect. (Franchise Agreement, Section 4.G)
- Update the Brand Manual to incorporate modifications to the Brand Standards. (Franchise Agreement, Section 4.H)
- Indemnify you and reimburse you for all damages and expenses you incur in any trademark proceeding disputing your authorized use of the Marks if you have timely notified us of the proceeding and comply with our directions. (Franchise Agreement, Section 5.G)
- Operate and maintain, and afford you access to, the Central Reservation System or such substitute as we determine. You will be responsible for the costs and expenses incurred to connect to the Central Reservation System. (Franchise Agreement, Section 8.F)
- Administer a brand promotion fund. (Franchise Agreement, Section 9.A)
- Maintain a franchise system website for Brand Hotels. (Franchise Agreement, Section 9.B)
- Provide you with the opportunity to participate in our Revenue Management for Hire program. (Franchise Agreement, Section 8.L)

### **Site Selection and Lease**

We do not lease the premises to you, nor provide assistance with site selection or negotiations of your purchase or lease of the property.

### **Hotel Specifications**

We will provide written specifications for necessary upgrading, renovation, construction and furnishing of your Hotel (the “Renovation Work”) in the form of a PIP, which will be attached to your Franchise Agreement. The PIP details required Renovation Work and alterations for compliance with the Brand Standards, as well as the required start date and completion date of such Renovation Work. Prior to commencing the Renovation Work, you must obtain all necessary insurance, including builder’s risk, and all permits and certifications required for lawful renovation of your Hotel, including zoning, access, sign, building permits, consents, and licenses.

Upon our request, you must submit to us your Plans and Designs with respect to the Renovation Work. We may supply you with representative prototype guest room and public area plans and schematic building plans as a guide for preparation of the Plans and Designs. In the event we request the Plans and Designs, and provide our approval of such Plans and Designs, such approval does not warrant the depth of our analysis or assume any responsibility for the efficacy of the Plans and Designs, or the resulting Renovation Work.

We do not review the Plans and Designs to check for compliance with any local, state and federal law, including any obligations imposed by the Americans with Disabilities Act. All legal compliance with respect to the Renovation Work, Plans and Designs are your responsibility.

We may require substantial modernization, renovation and other upgrading of your Hotel and your Hotel's FF&E ("Periodic Renovations"). We will require Periodic Renovations more frequently than every six years.

### **Computer Systems**

You must purchase, maintain and upgrade computer hardware, software and network systems, including security systems we designate in the Brand Standards. You will not be required to repurchase hardware and software that you already own or license. There are no contractual limitations on the frequency or costs of your upgrades or update obligations with respect to computer hardware, software and networks systems we designate.

We currently require that you use the Sabre SynXis Central Reservation System, Opera Property Management System, IDEaS Revenue Management System, SynXis SBE booking management solutions, and IBM Security MaaS360 mobile device management system, and we may designate the specific version of each software you are required to use. Currently, you will also be required to use the PlayerLync learning management system, but we may designate a different learning management system in the future. You must pay us an IT Implementations Services Fee, ranging between \$15,000 to \$52,000 (including travel and other expenses for our personnel), for us to generally help you implement these systems into your Hotel (see Item 7). We estimate that the installation of the Central Reservation System will cost \$1,500 to \$2,000 but will not require additional maintenance and support costs. We estimate that the installation of the Property Management System will cost \$45,000 to \$60,000 for a 100-room Brand Hotel (see Item 7, note 5 for the current fee range). You must also contract with our approved SaaS service provider to maintain your Property Management System, which we estimate to cost \$50,000 to \$75,000 per year. We estimate that the cost to install, and complete training for, the Revenue Management System will be \$4,900 to \$10,450, plus \$41.25 per Guest Room per year paid to us for your participation in it. The mobile device management system will likely cost \$5.00 per device per month. You will not need to incur any installation costs for the learning management system, but you may be required to incur certain expenses in connection with its maintenance and support, which we estimate to be no more than \$500 per month.

The Central Reservation System collects and generates business information and data relating to Brand Hotels' inventory of rooms and specific guest information, including guests' names, addresses, payment information and other personal information. We will have independent access to this information and data, and our access to this information and data is not contractually limited. You are required to pay all the costs associated with implementing the various components of the computer system. You must comply with all applicable laws pertaining to the data privacy of us, consumers, employees, and your Hotel's transactional information. Additionally, you must implement an authorized credit card interface, with tokenization and point-to-point encryption activated. You also are required to use the guest wireless Internet platform and necessary interfaces we specify in order to integrate with our loyalty program. Currently, tokenization is available through Shift4. We may require additional interfaces in the future. We recommend you obtain an estimate of these costs which will be based on your existing equipment and size of hotel, prior to entering executing the Franchise Agreement. You also must maintain four email addresses for your Hotel through Microsoft.

We may require you to use the software we designate to provide our exclusive authorized internet landing page. The installation cost to you will depend on your Hotel's integrator, network, and gateway, but is expected to range between \$2,000 to \$15,000 payable to a third-party

provider (which is subject to increase). The monthly fee to use the internet landing page will be covered by the Brand Promotion Fund.

You must also install and maintain Wi-Fi for your Hotel's guests along with an in-room entertainment system. The costs to install these services range from \$25,000 to \$50,000. We estimate guest Wi-Fi services to range from \$1,000 to \$2,800 per month, plus \$1.50 per Guest Room per month for additional support. We estimate you will need to pay between \$14.00 and \$16.00 per Guest Room per month for content, ongoing support, and maintenance of the in-room entertainment system.

You may purchase the hardware from third party suppliers, or you may lease it through third party lessors. However, the equipment must meet at least the minimum specifications as described in the Brand Manual and must be installed according to the Brand Standards. We periodically may revise the specifications for your computer system and related interfaces, and we may require you to use Approved Suppliers. You must pay for our assistance to determine that the equipment conforms to the Brand Standards; configuration costs; installation costs; reasonable travel and other expenses of our employees who perform installation or training services; necessary communication vehicles (e.g., phone lines and network connections); and installation fees for connection to communication vehicles. Unless we otherwise agree, neither we nor our affiliates are entitled to or obligated to provide ongoing maintenance to any hardware, software or network system we require.

## **Training**

### **Initial Training**

We do not assist in the hiring of your employees, but we will train certain of your Hotel employees and employees of the Management Company, if applicable, at your Hotel, at another location we designate, or virtually, at our election. The initial training program involves approximately 4 to 10 days of training, which includes Sonesta Guest Experience Opera Training. We offer the training program on an as needed basis throughout the year depending on our trainers' and attendees' availability.

Prior to opening your Hotel or within 90 days of activating your Hotel in our system, the general manager and director of sales or sales lead of your Hotel must complete our training program to our satisfaction. If you hire a new general manager and/or director of sales or sales lead during the term of your Franchise Agreement, they also will be required to attend and complete our training program to our satisfaction. You (or your Principal), Management Company lead personnel, your executive officers, and additional personnel that we allow may also attend our training program if space permits. If we determine that you or such personnel cannot complete initial training to our satisfaction, we may terminate the Franchise Agreement. Any individual attending our training program who has not signed the Franchise Agreement or Guaranty may be required to sign a confidentiality agreement.

You (or your Principal) may request additional training at the end of the initial training program, to be provided at our then current fees as outlined, if your general manager does not feel sufficiently trained in the operation of a Brand Hotel. We and you will jointly determine the duration of this additional training. However, if your Hotel's general manager completes our initial training program to our satisfaction and you have not expressly informed us in writing at the end of that program that your Hotel's general manager does not feel sufficiently trained in the operation

of a Brand Hotel, then you will be deemed to have been trained sufficiently to operate a Brand Hotel.

Training materials include the Brand Manual, and certain other training modules and courses designed to assist you in understanding programs related to Brand Hotels and best practices in the hospitality industry will be made readily available in Sonesta’s learning management system (“LMS”).

Our training is conducted under the supervision of Dominic Longo, Vice President, Training & Franchise Operations. Mr. Longo has 17 years of experience in hotel operations and management, has 11 years of experience with us and our affiliates, and oversees a team of internal and independent subject matter experts who develop and deliver our training.

Currently, our initial training program includes the following topics:

### Training Program

Subject	Hours of Classroom Training <sup>1</sup>	Hours of On-the-Job Training <sup>1</sup>	Location <sup>2</sup>
Welcome to Sonesta ES Suites	0	1 – 3	On-site at your Hotel
Stay Safe with Sonesta	0	1	On-site at your Hotel
Brand Immersions	0	3 – 4	On-site at your Hotel
Loyalty Program (Travel Pass)	0	1 – 3	On-site at your Hotel
E-Learning Platform & Portal	0	1 – 2	On-site at your Hotel
Brand Programs & Services	0	8 – 12	On-site at your Hotel
Brand Standards, Policies and Procedures	0	4 – 8	On-site at your Hotel
Technology Overview & Services	0	4	On-site at your Hotel
Supplier Services	0	1	On-site at your Hotel
Sonesta Guest Experience Opera Training	0	8 - 40	On-site at your Hotel
<b>Total</b>	<b>0</b>	<b>32 – 78</b>	

Note 1: The hours devoted to each subject are estimates and may vary based on class size, participation, the attendee’s experience with the subjects taught, and schedule.

Note 2: We may also elect to conduct training at another location we designate, or virtually, at our election.

## **Revenue Manager Certification Training**

If you choose to have a dedicated revenue manager rather than using our “revenue management for hire” services, your dedicated revenue manager must have at least two years of dedicated revenue management hotel experience; his or her sole function for your Hotel must be revenue management-centric; and he or she will be required to attend training and become certified in the use of our designated RMS. The training classes are provided by a third party service provider, may be provided on-site at your Hotel or conducted virtually, in your discretion, and currently cost between \$2,750 and \$8,050 per Hotel (depending on whether training is done on-site or virtually). If during the term of the Franchise Agreement you hire a new revenue manager, such person will also need to complete training for the RMS (currently, the cost is \$1,500 to train new managers for Hotels already using the RMS). You will pay these costs directly to us on behalf of the third party service provider.

## **Ongoing Training**

We may require you (or your Principal), your Hotel’s general manager, your director of sales or sales lead, and/or previously trained and experienced employees to attend and complete to our satisfaction various training courses that we periodically choose to provide at the times and locations that we designate, including courses and programs provided by third parties we designate. Training may be conducted in-person/on-site or virtually ad hoc at our current fees and at our discretion. Besides attending these courses, you and your general manager must attend the Brand Conference each year at a location we designate. All training and the Brand Conference may be held virtually, in our sole discretion. Attendance will not be required for more than five days during any calendar year.

## **Advertising and Marketing**

### **Brand Promotion Fund**

We and our affiliates have established a brand promotion fund for Brand Hotels (the “Brand Promotion Fund”). We will use the Brand Promotion Fund for advertising, marketing, and public relations programs and materials we deem appropriate. Currently we require franchisees to contribute 3.5% of Gross Rooms Revenue to the Brand Promotion Fund. However, we may increase the contribution rate, but your contribution rate will not exceed 4.5% of Gross Rooms Revenue. Brand Hotels that we or our affiliates own may not contribute to the Brand Promotion Fund on the same percentage basis as franchisees. We reserve the right to consolidate the Brand Promotion Fund with the brand promotion fund of other brands we or our affiliates maintain so that we maintain and administer one brand promotion fund for all brands or any combination of brands as we determine.

We or our affiliates or other designees will direct all programs that the Brand Promotion Fund finances, with sole control over the creative concepts, materials, and endorsements used and their geographic, market, and media placement and allocation. The Brand Promotion Fund may pay for: preparing and producing video, audio, and written materials and digital media; developing, implementing, and maintaining a franchise system website and related strategies; administering national, regional and multi-regional marketing and advertising programs, including purchasing trade journal, direct mail, and other media advertising and using advertising, promotion, and marketing agencies and other advisors to provide assistance; administering online advertising and marketing campaigns (including search engine, social media, email, and display ad campaigns); developing and maintaining application software designed to run on computers

and similar devices, including tablets, smartphones and other mobile devices, as well as any evolutions or “next generations” of any such devices, implementing and supporting the loyalty program or other marketing programs designed to encourage the patronage of Brand Hotels; supporting public relations, market research, and other advertising, promotion, and marketing activities; and such other uses as we deem appropriate for the promotion of Brand Hotels and further developing the reputation and image of Brand Hotels. We have sole discretion to determine how we spend these funds, including sole control over the creative concepts, materials, endorsements and media used in the programs, the geographic market in which we place any media and allocation of advertising. We may enter into arrangements for development, marketing, operations, administrative, technical and support functions, facilities, programs, services and personnel with any other entity, including our affiliates. The Brand Promotion Fund contributions do not cover your cost of participating in any optional marketing programs and promotions we may offer.

The Brand Promotion Fund will not be our asset. We will account for the Brand Promotion Fund separately from our other funds and will not use the Brand Promotion Fund for any of our general operating expenses. However, we may use the Brand Promotion Fund to reimburse us or our affiliates or designees for the reasonable salaries and benefits of personnel who manage and administer the Brand Promotion Fund, the Brand Promotion Fund’s other administrative costs, travel expenses of personnel while they are on Brand Promotion Fund business, meeting costs, overhead relating to Brand Promotion Fund business, and other expenses that we incur in activities reasonably related to administering or directing the Brand Promotion Fund and its programs, including conducting market research, public relations, preparing advertising, promotion, and marketing materials, and collecting and accounting for Brand Promotion Fund contributions. Brand Promotion Fund contributions will not be used principally to solicit new franchise sales.

The Brand Promotion Fund is not a trust. We do not owe any fiduciary obligation to you for administering the Brand Promotion Fund or any other reason. We will hold all Brand Promotion Fund contributions for the benefit of the contributors and use contributions for the purposes described in this subsection. The Brand Promotion Fund may spend in any fiscal year more or less than the total Brand Promotion Fund contributions in that year, borrow from us or others (paying reasonable interest) to cover deficits, or invest any surplus for future use. We may use all interest earned on the Brand Promotion Fund contributions to pay costs before using the Brand Promotion Fund’s other assets. We will prepare an annual, unaudited statement of Brand Promotion Fund collections and expenses and give you a copy of the statement upon your written request to us. You may not share such statement with any other Franchisees. We may have the Brand Promotion Fund audited annually, at the Brand Promotion Fund’s expense, by an independent certified public accountant. We may incorporate the Brand Promotion Fund or operate it through a separate entity whenever we deem appropriate.

We intend for the Brand Promotion Fund to promote recognition of the Marks and patronage of Brand Hotels contributing to the Brand Promotion Fund, and the Sonesta ES Suites brand generally. Although we will try to use the Brand Promotion Fund to develop advertising and marketing materials and programs, and to place advertising and marketing, that will benefit all Brand Hotels contributing to the Brand Promotion Fund, we need not ensure that Brand Promotion Fund expenditures in or affecting any geographic area are proportionate or equivalent to Brand Promotion Fund contributions by Brand Hotels operating in that geographic area or that any Brand Hotel benefits directly or in proportion to its Brand Promotion Fund contribution from the development of advertising and marketing materials or the placement of advertising and marketing. We have the right, but no obligation, to use collection agents and institute legal



proceedings to collect Brand Promotion Fund contributions at the Brand Promotion Fund's expense. We also may forgive, waive, settle, and compromise all claims by or against the Brand Promotion Fund. We assume no direct or indirect liability or obligation to you for collecting amounts due to, maintaining, directing, or administering the Brand Promotion Fund.

We may at any time defer or reduce contributions of a Brand Hotel franchise owner and, upon 30 days' prior notice to you, reduce or suspend Brand Promotion Fund contributions and operations for one or more periods of any length and terminate (and, if terminated, reinstate) the Brand Promotion Fund. If we terminate the Brand Promotion Fund, we will, at our option, either spend all unspent monies until such amounts are exhausted, or distribute the funds in the Brand Promotion Fund to the contributing Hotel owners on a pro rata basis.

We did not collect any Brand Promotion Fund contributions during the 2020 fiscal year.

We do not have a franchisee advisory council that advises us on advertising policies, though we reserve the right to establish this council in the future.

### **Local Advertising**

You may advertise and promote your Hotel and related facilities and services on a local and regional basis in a dignified manner, in accordance with the provisions of the Franchise Agreement and the Brand Standards, using our identity and graphics standards for all Brand Hotels, at your cost and expense. You must submit to us samples of all advertising and promotional materials that we have not previously approved (including any materials in digital, electronic or computerized form, or in any form of media that exists now or is developed in the future) before you produce or distribute them. You may not begin using the materials until we approve them. You must immediately discontinue your use of any advertising or promotional materials we reasonably believe is not in the best interest of your Hotel, Brand Hotels generally, or us, even if we previously approved the materials.

You are not obligated to participate in any local or regional advertising cooperative.

### **Websites, Social Media and Other Online Presence**

We maintain a website for the Brand Hotels to advertise, market, and promote Brand Hotels, the products and services that they offer and sell, or the Brand Hotel franchise opportunity (the "Franchise System Website"). We will have sole discretion and control over the Franchise System Website (including design, contents and continuation). In connection with the Franchise System Website, we may require you to: (i) provide us the information and materials we request to develop, update, and modify the Franchise System Website with reference to your Hotel information; and (ii) notify us whenever any information on the Franchise System Website is not accurate with respect to your Hotel. We will own all intellectual property and other rights in the Franchise System Website, including your webpage, and all information they contain (including the domain name or URL for your webpage, the log of "hits" by visitors, and any personal or business data that visitors supply). We also may discontinue the Franchise System Website, or consolidate the Franchise System Website with the website of any other brands we or our affiliates maintain, at any time.

You may not register, own, maintain or use any domain name, homepage, electronic address, website, email address, social media account, username, screen name, other online presence or presence on any electronic medium of any kind (collectively, the "Online Presence"),

relating to Network Hotels or your Hotel or that includes the Network Marks, except as approved in advance by us. As a general rule, we do not permit franchisees of Brand Hotels to maintain vanity or other independent Online Presences. You may not list the details or contact information of your Hotel on any vanity or other independent websites or other Online Presence, including any OTAs, without our prior approval. You must establish any Online Presence that we may require, and only establish any other Online Presence that we authorize. All use of Online Presences must be in accordance with the Brand Standards and our other guidelines, including the implementation and maintenance of and compliance with privacy policies, as applicable. Given the changing nature of this technology, we have the right to withhold our approval and to withdraw any prior approval to modify our requirements.

You may not, without a legal license or other legal right, post on any Online Presence any material in which any third party has any direct or indirect ownership interest, including video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image in which any third party may claim intellectual property ownership interests without obtaining prior written consent from the content owner. You must incorporate on any Online Presence any other information we require in the manner we consider necessary to protect the Network Marks. You must establish any Online Presence that we may require and may establish any other Online Presence that we authorize.

Your use of all Online Presence shall be subject to the Brand Standards as we may implement during the term of your Franchise Agreement. You must adhere to our Online Presence guidelines and procedures, which include but are not limited to: appropriate content, relevance, behavior related to communications, frequency and responsiveness to communications, etiquette, naming conventions and use of the Network Marks and posting messages or commentary on third party websites. We must approve your social media pages and they shall be linked to any Network Brand social media pages we designate. We have the right to require you to remove your social media page(s) if you fail to comply with our guidelines and procedures.

We will own the rights to each Online Presence. At our request, you must grant us access to each Online Presence and to take whatever action we request to prove that we own each Online Presence or help us obtain exclusive administrative rights in such Online Presence.

Upon the expiration or termination of the Franchise Agreement, you must irrevocably assign and transfer to us (or to our designee) all of your right, title and interest in any domain name listings and registrations and other Online Presence which contain any references to the Network Marks or any of the Network Brands, and must notify the applicable domain name registrar(s) or other third party of the termination of your right to use any domain name or Online Presence associated with the Network Marks or any of the Network Brands, and will authorize and instruct the cancellation or transfer of the Online Presence to us (or our designee), as directed by us. You also must delete all references to the Network Marks and any of the Network Brands from any other Online Presence you own, maintain or operate beyond the expiration or termination of the Franchise Agreement.

## **Loyalty Program**

We may administer and manage loyalty programs that will provide participating guests of your Hotel with certain rewards or benefits when staying at your Hotel. Such loyalty programs may apply specifically for Brand Hotels or to any or all Network Hotels. Currently, Brand Hotels participate in our loyalty program referred to as "Sonesta Travel Pass." We charge a loyalty

program fee for your participation in the Sonesta Travel Pass program in the amount of 4.5% of your Hotel's Qualified Room Revenue (see Item 6 above) garnered through guests participating in the Sonesta Travel Pass Program. We may periodically modify or discontinue the Sonesta Travel Pass or any other loyalty program that we designate. You must participate in and honor the terms of any and all loyalty, discount or other promotional program applicable to Brand Hotels and pay all applicable fees or charges associated with such programs (including any fees assessed by us, room discounts given to guests, or rewards provided to guests, that are applicable to your Hotel) that we offer to the public on your behalf and any room rate quoted to any guest at the time the guest makes an advance reservation. You must take all action necessary to participate in any loyalty program and you must grant all necessary rights in and to any photographs, video and/or other marketing materials used in connection with any loyalty programs.

### **Time between Signing your Franchise Agreement and Opening your Hotel**

The typical length of time between signing your Franchise Agreement or making a payment to us, whichever is earlier, and opening your Hotel as a Brand Hotel is expected to be 60 to 180 days. Factors that may affect this typical time period include your ability to: install equipment, fixtures, furniture, and signage that comply with Brand Standards; recruit competent staff; and complete any required renovation work, including any PIP that we issue (including obtaining any requisite building permits, certificates of occupancy, and local licenses, as applicable). If you fail to commence the renovation work by the commencement date specified in the PIP, or complete the renovation work by the completion date specified in the PIP, we may terminate the Franchise Agreement.

## **ITEM 12. TERRITORY**

We grant franchisees a non-exclusive license to operate Brand Hotels at a specified location. You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

We and our affiliates retain the right to engage in any and all activities that we (or they) deem appropriate and are not expressly prohibited under the Franchise Agreement, at all times, anywhere in the world, including the right to:

(a) establish and operate, and allow others to establish and operate Brand Hotels at any location on such terms and conditions we deem appropriate;

(b) establish, operate and license others to establish and operate, anywhere in the world other than the premises of your Hotel, Network Hotels and other businesses that offer products and services which are identical or similar to the products and services offered by Brand Hotels under any trade names, trademarks, service marks and commercial symbols;

(c) purchase, merge, acquire, be acquired or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of that network's, chain's or business' facilities, and to operate, franchise or license those businesses under the Marks or any other marks following the purchase, merger, acquisition or affiliation, regardless of the location of those businesses (or the franchisees or licensees of those businesses);

(d) sell our ownership interests, our assets, the Marks and/or the Franchise System to a third party; become publicly-traded; engage in a private placement of some or all of our securities; merger, acquire other corporations or entities, or be acquired by another corporation or entity; and/or undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring; and

(e) engage in all other activities not expressly prohibited by the Franchise Agreement.

We are not required to pay you if we exercise any of the rights specified above in your Hotel's market area. We have and continue to use all channels of distribution, including internet, telemarketing or other direct marketing sales to make sales within your market area using any of the Network Marks or future marks we may acquire or create. We are not obligated to compensate you for sales made within your market area. Franchisees of all Network Brands may solicit or accept customer reservations within your market area, and likewise, you may solicit or accept customer reservations within the market area of other Network Hotels. However, you may not solicit or accept customer reservations through any Online Presence except as expressly permitted by the Brand Standards.

"Competitive Business" means any entity that, (i) directly or through an affiliate, owns in whole or in part, or is the franchisor or other owner of a hotel brand or trade name (whether or not licensed) that, in our judgment, competes with the Brand Hotels or Network Hotels, irrespective of the number of hotels comprising the competitive hotel brand, (ii) that offers or sells goods or services that are generally the same as or similar to the goods or services being offered by businesses owned, operated, franchised or licensed by us or our affiliates, or (iii) that grants franchises or licenses for the operation of any of the foregoing or provides services to the franchisor or licensor of any of the foregoing. Notwithstanding the foregoing, no entity will be considered a Competitive Business if such entity has an interest merely as (i) a franchisee; (ii) a management company operating hotels on behalf of multiple brands; or (iii) a passive investor that has no control over business decisions of such brand.

We do not permit the relocation of Brand Hotels. Your Franchise Agreement does not grant you any options, rights of first refusal, or similar rights to acquire additional franchises.

In special circumstances, we may grant a Brand Hotel an exclusive or protected area in which we will not grant a franchise for another Brand Hotel, if in our sole judgment we believe the circumstances warrant the grant of such protection.



There currently may be franchised or company-owned Network Hotels situated in or near your market area. We and our affiliates or subsidiaries may establish new franchised, company-owned or company-managed Network Hotels in or near your area.

There is no mechanism for resolving any conflicts that may arise between franchised or company-owned Network Hotels and franchised Brand Hotels. Any resolution of conflicts regarding location, customers, support or services will be entirely within your and our business judgment. We utilize the same principal business address as identified in Item 1 of this disclosure document for all Network Brands and do not maintain physically separate offices and training facilities for each Network Brand. While we do not anticipate conflicts between franchisees of different brands, we will analyze any future conflict and take action (if any) that we deem appropriate.

## ITEM 13. TRADEMARKS

The Franchise Agreement grants you the non-exclusive right and license to use the Marks, as well as other trademarks, service marks and commercial symbols we authorize in the development and operation of your Hotel.

Sonesta is the owner of the following Marks that are registered with the United States Patent and Trademark Office on the Principal Register (“USPTO”):

SERVICE MARK	REGISTRATION NO.	REGISTRATION DATE
Sonesta	3,685,842	September 22, 2009
	1,177,670	November 10, 1981
	4,497,507	March 18, 2014
SONESTA ES SUITES	4,369,709	July 16, 2013

Sonesta has filed all required renewals and affidavits with the USPTO. Sonesta claims all applicable common law rights for all of the Marks listed above.

### **Use of the Marks: Your Duties**

You must immediately notify us of any apparent infringement of or challenge to your use of any of the Marks. We may take any action we think appropriate, and at our option we may control any litigation or administrative proceeding.

If you have timely notified us of a claim or proceeding and comply with the Franchise Agreement, we will indemnify you for all damages for which you are held liable in any proceeding from your authorized use of the Marks.

You may not communicate with any other person regarding any such infringement, challenges or claims and only we and our affiliates will have the right to handle disputes concerning the Marks. We and our affiliates will take the action we and they consider appropriate (including no action) with respect to such challenges and claims. You must extend your full cooperation to us and our affiliates in these matters. You must sign any documents we believe are necessary to obtain protection for the Marks and assign to us any claims you may have related to these matters. Our decision as to the prosecution, defense and settlement of the dispute will be final. All recoveries made as a result of disputes with third parties regarding the Marks will be for our account.

You will not have the right to use any service marks, copyrights, trademarks, logos, designs, insignia, emblems, symbols, designs, slogans, distinguishing characteristics, trade names, domain names or other marks or characteristics owned by us or our affiliates that we do not specifically designate to be used as part of the Brand Standards.

You must operate under and prominently display the Marks in your Hotel. You may not adopt any other names in operating your Hotel that we do not approve. You also may not use any of the Marks or Network Marks, or the words “Sonesta” or “Sonesta ES Suites ” or any similar word(s) or acronyms: (a) in your corporate, partnership, business or trade name except as we provide in the Franchise Agreement, the Brand Manual or otherwise in writing, or (b) in any Online Presence, except as we provide in the Franchise Agreement, the Brand Manual or otherwise in writing, or (c) in any business operated separate from your Hotel, including in the name or identity of any development or business adjacent to or associated with your Hotel. Any unauthorized use of the Marks will be an infringement of our and our affiliates’ rights and a material breach of the Franchise Agreement.

You may not prepare any adaptation, translation, transliteration, or work derived from the Brand Standards, Marks, Confidential Information (as defined in Item 14) or other proprietary rights without our consent. If we approve such adaptation, translation, transliteration or work derivation, you agree that the derivative work will be our property, and you assign all your right, title and interest in it to us.

If we decide to modify or discontinue use of any of the Marks or to use one or more additional or substitute Marks, you must follow our directions to modify or discontinue use of the Marks or to use one or more additional or substitute Marks within a reasonable time after notice. We have no obligations to reimburse you for any expenses resulting from a change in Marks, for your expenses for promoting a modified or substitute trademark or service mark, or for any indirect expense, such as advertising expenses, or for any goodwill associated with any discontinued Mark.

### **Agreements, Proceedings, Litigation and Infringing Uses**

There are no agreements currently in effect that significantly limit our rights to use or license the use of these Marks in any material manner, except as related to the License Agreement between us and Sonesta, as noted below. There are no effective determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board or the trademark administrator of any state or any court in the United States involving the Marks. There is no pending material litigation or pending infringement, opposition or cancellation proceedings in the United States that could materially affect the use of the Marks.

We and Sonesta entered into a License Agreement, dated September 23, 2021, which grants us the right to use and sublicense to our franchisees the right to use the Marks. The term of the License Agreement is for 99 years unless either party gives notice of termination before the end of such term. If the License Agreement expires or is terminated while your Franchise Agreement is in effect, you will be allowed to continue to use the marks until your Franchise Agreement expires or is terminated.

We do not presently know of any infringing uses that could materially affect your use of the Marks.

## **ITEM 14. PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION**

Neither we nor any of our affiliates own any patents, pending patent applications or registered copyrights that are material to the franchise. Although we have not filed an application for copyright registration for the Brand Manual, other written materials, or trade dress, we or our affiliates claim copyright protection for the Brand Manual, for any other written materials we develop to assist you in the development and operation of your Hotel, and the trade dress for Brand Hotels. You may use the copyrighted materials to operate your Brand Hotel in accordance with Brand Standards during the term of the Franchise Agreement but you do not have any rights in those materials.

There are no determinations of the U.S. Copyright Office or any court, nor are there any pending infringement, opposition or cancellation proceedings or material litigation, involving the copyrighted materials which are relevant to their use by our franchisees. There are no agreements currently in effect that significantly limit our rights to use or license the use of the copyrighted materials in any material manner.

You must immediately notify us of any apparent infringement of or challenge to your use of any copyrighted materials. We may take any action we think appropriate (including no action), and at our option we may control any litigation or administrative proceeding.

You may not communicate with any other person regarding any such infringement, challenges or claims and only we and our affiliates will have the right to handle disputes concerning the copyrighted materials. We and our affiliates will take the action we and they consider appropriate with respect to such challenges and claims. You must extend your full cooperation to us and our affiliates in these matters. You must sign any documents we believe are necessary to obtain protection for the copyrighted materials and assign to us any claims you may have related to these matters. Our decision as to the prosecution, defense and settlement of the dispute will be final. All recoveries made as a result of disputes with third parties regarding the copyrighted marks will be for our account. We are not obligated to indemnify you for damages related to use of our copyrighted materials but we will reimburse you for your costs of taking any action that we or our affiliates have asked you to take in any litigation or proceeding.

We grant you the right to use our Confidential Information. Our "Confidential Information" includes: site selection criteria; training and operations materials and manuals, including the Brand Manual; the Brand Standards and other methods, formats, specifications, standards, systems, procedures, techniques, sales and marketing techniques, knowledge, and experience used in developing, promoting, and operating Brand Hotels; market research, promotional, marketing and advertising programs for Brand Hotels; knowledge of specifications for, and suppliers of FF&E, products and supplies; any Computer System, computer software, or similar technology which is proprietary to us or our affiliates, including digital passwords and identifications and any source code of, and data, reports, and other printed materials generated by, the software or similar technology; knowledge of the operating results and financial performance of Brand Hotels, other than your Hotel; and customer data. You must treat the Confidential Information as confidential. You must adopt and implement all reasonable procedures we may periodically establish to prevent unauthorized use or disclosure of the Confidential Information, including restrictions on disclosure to employees and the use of non-disclosure clauses in agreements with employees, agents and independent contractors who have access to the Confidential Information. You must comply with our requirements concerning confidentiality of the Confidential Information. You may not copy or distribute any part of the Confidential Information, including the Brand Manual, to anyone except your employees or

contractors who have a need to know such Confidential Information to operate your Hotel. You must promptly notify us, in writing, when you learn of any unauthorized use of our Confidential Information. We will respond as we think appropriate.

#### **ITEM 15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

You are not required to participate personally in the direct operation of your Hotel, although we recommend that you do so. If you (or your Principal, if you are a legal entity) do not personally manage your Hotel, you must hire a management company (the "Management Company") that we approve to manage the direct operation of your Hotel. The management agreement or other agreement between you and the Management Company will be subject to our prior written approval. Prior to opening your Hotel or within 90 days of activating your Hotel in our system, the general manager and director of sales or sales lead of your Hotel must complete our training program to our satisfaction. You (or your Principal), Management Company lead personnel, your executive officers, and additional personnel that we allow may also attend our training program if space permits. Whether you are an individual, corporation, limited liability company, partnership or other entity, you are at all times responsible for the management, direction and control of your Hotel, regardless of whether you retain a Management Company. If you are a legal entity, your "Principal" must have at least a 25% ownership interest and voting power in you, and must have the authority of a chief executive officer. If you hire a Management Company, it will not be required to have an equity interest in you.

If you hire a Management Company, we require the Management Company to execute the Management Company Joinder, attached as Exhibit B to the Franchise Agreement, whereby the Management Company agrees that it is bound by all of the terms of the Franchise Agreement and agrees that it is jointly and severally liable with you for all your obligations under the Franchise Agreement, except with respect to the actual payments of any amounts due to any third parties, our affiliates or pursuant to the Franchise Agreement. The Management Company must have the authority to act on your behalf and deal with us in all matters that may arise under the Franchise Agreement, and we will be entitled to rely solely upon a decision of the Management Company. In the case of any conflict between the Franchise Agreement and any management agreement between you and the Management Company, the Franchise Agreement will prevail.

During the term of the Franchise Agreement, you may not engage in a Competitive Business and must not divert business to a Competitive Business. You must obtain similar covenants from the personnel we specify, including officers, directors, managers, and other employees attending our training program or having access to Confidential Information. However, we do not require you (or your Principal, if you are a legal entity) or the Management Company to sign an agreement not to compete with us after expiration or termination of the Franchise Agreement. You may not use, copy or disclose any Confidential Information, other than as necessary to operate your Hotel during the term of the Franchise Agreement. We reserve the right to require that any employee, agent or independent contractor that you hire execute a non-disclosure agreement to protect the Confidential Information. We reserve the right to regulate the form of non-disclosure agreement that you use and to be a third-party beneficiary of those agreements with independent enforcement rights.

If you are a legal entity, each of your direct and indirect owners, with a 15% or more ownership interest in you, must sign a guaranty of your obligations under the Franchise Agreement in the form attached as Exhibit D to the Franchise Agreement. Each person signing



a guaranty assumes and agrees to discharge all of the franchisee's obligations under the Franchise Agreement.

**ITEM 16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You must use your Hotel's premises solely for the operation of a Sonesta-branded hotel. You will offer and sell from your Hotel all of the products and services that we periodically specify in the Brand Manual or otherwise in writing, including all products and services ancillary to the operation of your Hotel that we may periodically specify, you will not offer or sell at your Hotel or from the premises any product or service we have not authorized, and you will discontinue selling and offering for sale any products and services that we at any time disapprove. We have the right to change the types of products and services that are compatible with the Brand Standards and there are no limitations on our right to make such changes. There are no restrictions as to the customers to whom you may sell Guest Room stays or other products and services ancillary to the operation of your Hotel.

**ITEM 17. RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION**

**This table lists certain important provisions of the Franchise Agreement and related agreements. You should read these provisions in the agreements attached to this disclosure document.**

<b>THE FRANCHISE RELATIONSHIP</b>		
<b>PROVISION</b>	<b>SECTION IN FRANCHISE AGREEMENT</b>	<b>SUMMARY</b>
a. Length of the franchise term	Section 1.A	Term is 20 years.
b. Renewal or extension of the term	Section 13.A	If you satisfy the renewal requirements in the Franchise Agreement, you may acquire a successor franchise for one additional 10-year term.
c. Requirements for franchisee to renew or extend	Section 13	To qualify for a successor franchise, you must: give timely notice of election to renew; have substantially complied with the Franchise Agreement during its term; on the date you give the renewal notice and on the date the term of the new franchise agreement would commence, be in full compliance with the Franchise Agreement and all Brand Standards; maintain possession of your Hotel premises and remodel your Hotel as necessary to comply with then-current Brand Standards; if we require, transition your Hotel to a different brand concept that we or an affiliate then offers; if we notify you of any deficiencies, you correct those deficiencies before renewal; you sign our then-current form of franchise agreement, which may contain terms and conditions that differ materially from those in the Franchise Agreement, and any ancillary agreements we then sign for new franchises; pay the renewal fee; and you and your owners must sign a general release, in form satisfactory to us.

<b>THE FRANCHISE RELATIONSHIP</b>		
<b>PROVISION</b>	<b>SECTION IN FRANCHISE AGREEMENT</b>	<b>SUMMARY</b>
d. Termination by franchisee	Sections 14.G and 16.B	You may terminate the Franchise Agreement without paying Lost Revenue Damages (described in Item 6) in the event your Hotel is damaged by fire or other casualty, the damage or destruction is substantial and material, affecting over fifty percent (50%) of the Guest Rooms of your Hotel, the reasonable estimated cost to repair the damage exceeds the fair market value of your Hotel, and you provide us written notice within 60 days of such casualty event of your election not to repair or rebuild your Hotel.  If you terminate the Franchise Agreement without cause, you must pay us Lost Revenue Damages.
e. Termination by Franchisor without cause	Section 16.A	If your Hotel is condemned, you must give us notice at the earliest possible time. If, in our sole discretion, the taking is significant enough to render operation of your Hotel in accordance with the Brand Standards impractical, then we may terminate the Franchise Agreement on written notice, effective as of the day of the consummation of the actual taking.
f. Termination by Franchisor with cause	Sections 14.A and 14.B	We may terminate the Franchise Agreement if you or your owners, or any guarantor of your obligations under the Franchise Agreement, violate the Franchise Agreement.
g. "Cause" defined-curable defaults	Section 14.A	Under the Franchise Agreement, you have 30 days to cure operational defaults and other defaults of the Franchise Agreement or Brand Standards not listed in subsection h. below, or other agreements with us relating to your Hotel.

<b>THE FRANCHISE RELATIONSHIP</b>		
<b>PROVISION</b>	<b>SECTION IN FRANCHISE AGREEMENT</b>	<b>SUMMARY</b>
h. "Cause" defined-non-curable defaults	Sections 14.B and 16.B	<p>Non-curable defaults under the Franchise Agreement include you or any guarantor: failing to pay us (or our affiliates) any amounts due and failing to correct such failure within ten days after our written notice of the same; failing to pay debts as they become due; filing bankruptcy, becoming insolvent, or being placed in a receivership; allowing an attachment to remain on all or a substantial part of your Hotel or of your or its assets for 30 days; failing within 60 days of the entry of a final judgment of any amount exceeding \$100,000 to discharge, vacate or reverse the judgment, or to stay execution of it, or if appealed, to discharge the judgment within 30 days after a final adverse decision in the appeal; losing possession or the right to possession of all or a significant part of your Hotel; failing to complete renovation work set forth in the PIP by your required completion date; failing to open your Hotel by the Opening Date; failing to continue to identify your Hotel to the public as a Brand Hotel, or failing to operate your Hotel for five consecutive days, or any shorter period after which it is not unreasonable under the facts and circumstances for us to conclude that you do not intend to continue to operate your Hotel; contesting in any court or proceeding our ownership of the Marks or any part of the Franchise System, or the validity of any of the Marks; taking any action toward dissolving or liquidating yourself or itself; any of the owners of a controlling equity interest in you are or have been convicted by a trial court of, or plead or have pleaded no contest to, a felony (or any other offense or conduct that we reasonably determine is likely to adversely reflect upon your Hotel, the Marks, the Network Hotels, us or our subsidiaries or affiliates); concealing revenue, maintaining false books and records of accounts, submitting false reports or information to us or otherwise attempt to defraud us or any third-party in connection with the operation of your Hotel; engaging in any dishonest or unethical behavior; knowingly making unauthorized use or disclosure of any part of the Brand Manual or any other Confidential Information; failing to pay when due any taxes due on your Hotel's operation; becoming a Competitive Business; engaging in an unauthorized transfer; not purchasing or maintaining required insurance, or not reimbursing us for our purchase of insurance on your behalf; failing to obtain or maintain licenses required to operate your Hotel; we learn of any information involving you or your affiliates that we determine is likely to adversely reflect upon any gaming licenses or permits held by us or our affiliates, or our or their reputation; we reasonably determine that continued operation of your Hotel will result in imminent danger to public health or safety; you violate any law, ordinance, rule or regulation and fail to correct such violation within 72 hours after receiving notice from us or another party; or any guarantor breaches his or her guaranty or fails to provide adequate assurances to us.</p> <p>Non-curable defaults also include engaging in the same noncompliance within any consecutive 24-month period, or breach of the Franchise Agreement on 3 or more separate occasions within any consecutive 12-month period, regardless of whether the defaults are cured.</p> <p>If your Hotel is damaged by fire or other casualty and you elect to repair or rebuild your Hotel, we may terminate the Franchise Agreement if you fail to complete the restoration in accordance with Brand Standards and recommence operations within 180 days after the casualty event occurs.</p>

<b>THE FRANCHISE RELATIONSHIP</b>		
<b>PROVISION</b>	<b>SECTION IN FRANCHISE AGREEMENT</b>	<b>SUMMARY</b>
i. Franchisee's obligations on termination/non-renewal	Sections 14.C through 14.H	Pay us all amounts owed within 15 days; cease use of the Marks; cease identifying yourself or any business as a current or former franchisee or Hotel and cancel all fictitious or assumed name registrations relating to the Marks; deliver to us or destroy all signs, marketing materials, forms and other materials containing any Mark or relating to a Brand Hotel, including copies of Confidential Information; de-identify your Hotel; cease using and disable or transfer to us or our designee all telephone numbers, Online Presences and other contact identifiers used to operate your Hotel; pay liquidated damages, if applicable; not interfere with our or our affiliates' relationships with vendors or consultants or engage in activity that might injure the goodwill of the Marks or Brand Hotels; and honor any advance reservations made for your Hotel prior to the termination at the rates and on the terms established at the time of booking.
j. Assignment of contract by Franchisor	Section 12.A	No restriction on our right to assign.
k. "Transfer" by franchisee-defined	Section 12.B	Any voluntary, involuntary, direct, or indirect assignment, sale, gift, or other disposition of any interest in: the Franchise Agreement (or any interest in it); you; your Hotel or substantially all of its assets; or your owners (if such owners are legal entities).  An assignment, sale, gift, or other disposition includes: transfer of ownership interest, including by public offering or private placement; merger; sale of convertible security; divorce, insolvency or dissolution; transfer by will, declaration of trust, or intestate succession; or pledge of the Franchise Agreement or an ownership interest in you or your owners as security, foreclosure, or surrender or loss of the possession, control, or management of your Hotel.
l. Franchisor's approval of transfer by franchisee	Section 12.B	You may not make any transfers without our prior written consent.

<b>THE FRANCHISE RELATIONSHIP</b>		
<b>PROVISION</b>	<b>SECTION IN FRANCHISE AGREEMENT</b>	<b>SUMMARY</b>
m. Conditions for Franchisor approval of transfer	Section 12.C	You have paid all Royalty and Brand Promotion Fund contributions, and other amounts owed and have submitted all required reports and statements; you have not violated any provision of the Franchise Agreement, your Lease, or any other agreement with us during both the 60-day period before you requested our consent to the transfer and the period between your request and the effective date of the transfer, nor have you received a notice of termination from us; the transferee, its owners and its affiliates do not have an ownership interest in or perform services for a Competitive Business; the transferee satisfactorily completes any training, brand introduction and/or orientation program that we require at the time of the transfer; your landlord, if applicable, consents to the transfer or sublease of the Lease; the transferee agrees to meet with us at our request, either virtually or in person, to conduct an inspection of the Premises and develop a PIP for necessary upgrades, remodeling, and refurbishment of your Hotel and your Hotel's FF&E in accordance with our then-current requirements and specifications for Brand Hotels, and complete the renovation work therein within 120 days after the effective date of the transfer; the transferee, at our request, signs our then current form of franchise agreement and related documents (which agreement may differ materially from the Franchise Agreement); transferee meets our qualifications then imposed on new franchisees; payment of transfer fee; you and your owners sign a general release; and you cease to identify yourself as a current or former franchisee.
n. Franchisor's right of first refusal to acquire franchisee's business	Section 12.D	You must notify us in writing of your intent to sell the Hotel. Upon any offer you receive for the purchase of your Hotel, we will have the right to purchase your Hotel on the same terms and conditions as those offered by the third party. We will have 30 days to decide whether to purchase your Hotel
o. Franchisor's option to purchase franchisee's business	Section 12.D	If we decide to purchase your Hotel pursuant to our right of first refusal, we will purchase the Hotel on the same terms and conditions as those offered by the third party purchaser.
p. Death or disability of franchisee	Section 12.C	Upon the death or incapacity of a franchisee who is a natural person or one of your owner's if you are an entity, if a transfer is proposed to be made to such person's spouse and we do not approve the spouse as transferee, the trustee or administrator of the transferor's estate will have nine months after the disapproval in which to transfer the interests to another party approved by us. Transfer to a spouse will be subject to the same conditions identified in subsection m. above, except no transfer fee will be due.
q. Non-competition covenants during the term of the franchise	Section 7.A	No direct or indirect interest as an owner in a Competitive Business, wherever located or operating; no performing services for a Competitive Business, wherever located or operating; no diversion of business from your Hotel to a Competitive Business; and no use of the Franchise System or Brand Standards for any business other than your Hotel.

<b>THE FRANCHISE RELATIONSHIP</b>		
<b>PROVISION</b>	<b>SECTION IN FRANCHISE AGREEMENT</b>	<b>SUMMARY</b>
r. Non-competition covenants after the franchise is terminated or expires	Not Applicable	Not Applicable
s. Modification of the agreement	Section 17.K	No modifications of the Franchise Agreement except by written agreement, except that we may modify the Brand Manual and Brand Standards.
t. Integration / merger clause	Section 17.N	Only the terms of Franchise Agreement, including its attachments and the Brand Standards, are binding (subject to state law). Any representations or promises outside of this Disclosure Document and the Franchise Agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	Section 17.F	We and you must arbitrate all disputes at a location within 50 miles of our or, as applicable, our successor's or assign's then-current principal place of business (currently, Newton, Massachusetts) (subject to state law).
v. Choice of forum	Sections 17.H and 17.J	Subject to the arbitration requirement, litigation must be brought in the court nearest to our or, as applicable, our successor's or assign's then current principal place of business (currently, Newton, Massachusetts) (subject to state law). However, we may seek injunctive relief in any court of competent jurisdiction.
w. Choice of law	Section 17.G	Except for the U.S. Trademark Act, the Federal Arbitration Act and other federal laws, Massachusetts law applies (subject to state law).

## **ITEM 18. PUBLIC FIGURES**

We do not use any public figures to promote the sale of franchises.

## **ITEM 19. FINANCIAL PERFORMANCE REPRESENTATIONS**

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Bradford Maxwell, Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458, (617) 421-

5400, legal@sonesta.com, the Federal Trade Commission, and the appropriate state regulatory agencies.

**ITEM 20. OUTLETS AND FRANCHISEE INFORMATION**

**TABLE NO. 1  
SYSTEMWIDE OUTLET SUMMARY  
FOR YEARS 2018 to 2020<sup>1</sup>**

<b>Outlet Type</b>	<b>Year</b>	<b>Outlets at the Start of the Year</b>	<b>Outlets at the End of the Year</b>	<b>Net Change</b>
Franchised	2018	0	0	0
	2019	0	0	0
	2020	0	0	0
Company-Owned <sup>2</sup>	2018	42	42	0
	2019	42	44	+2
	2020	44	63	+19
<b>Total Outlets</b>	<b>2018</b>	<b>42</b>	<b>42</b>	<b>0</b>
	<b>2019</b>	<b>42</b>	<b>44</b>	<b>+2</b>
	<b>2020</b>	<b>44</b>	<b>63</b>	<b>+19</b>

<sup>1</sup> Each year is as of December 31 for each Table under Item 20.

<sup>2</sup> Company-owned hotels include affiliate-owned hotels.

**TABLE NO. 2  
TRANSFER OF OUTLETS FROM FRANCHISEES TO NEW OWNERS (OTHER THAN THE FRANCHISOR)  
FOR THE YEARS 2018 to 2020**

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
All States	2018	0
	2019	0
	2020	0
<b>Total Outlets</b>	<b>2018</b>	<b>0</b>
	<b>2019</b>	<b>0</b>
	<b>2020</b>	<b>0</b>

**TABLE NO. 3  
STATUS OF FRANCHISED OUTLETS  
FOR YEARS 2018 to 2020**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
All States	2018	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0
Total	2018	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0

**TABLE NO. 4  
STATUS OF COMPANY-OWNED OUTLETS  
FOR YEARS 2018 to 2020**

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
Alabama	2018	2	0	0	0	0	2
	2019	2	0	0	0	0	2
	2020	2	0	0	0	0	2
Arizona	2018	2	0	0	0	0	2
	2019	2	0	0	0	0	2
	2020	2	0	0	0	0	2
California	2018	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2020	0	8	0	0	0	8
Colorado	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	1	0	0	0	2
Delaware	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
Florida	2018	2	0	0	0	0	2
	2019	2	0	0	0	0	2
	2020	2	2	0	0	0	4
Georgia	2018	3	0	0	0	0	3
	2019	3	0	0	0	0	3
	2020	3	2	0	0	0	5
Illinois	2018	2	0	0	0	0	2
	2019	2	0	0	0	0	2
	2020	2	0	0	0	0	2



State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
Louisiana	2018	0	0	0	0	0	0
	2019	0	1	0	0	0	1
	2020	1	1	0	0	0	2
Maryland	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
Massachusetts	2018	2	0	0	0	0	2
	2019	2	0	0	0	0	2
	2020	2	0	0	0	0	2
Michigan	2018	2	0	0	0	0	2
	2019	2	0	0	0	0	2
	2020	2	0	0	0	0	2
Minnesota	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
Missouri	2018	2	0	0	0	0	2
	2019	2	0	0	0	0	2
	2020	2	0	0	0	0	2
Nebraska	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
New Jersey	2018	5	0	0	0	0	5
	2019	5	0	0	0	0	5
	2020	5	0	0	0	0	5
North Carolina	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
Ohio	2018	6	0	0	0	0	6
	2019	6	0	0	0	0	6
	2020	6	0	0	0	0	6
Oklahoma	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
Pennsylvania	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
Rhode Island	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
Tennessee	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
Texas	2018	2	0	0	0	0	2
	2019	2	1	0	0	0	3
	2020	3	3	0	0	0	6

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
Vermont	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
Virginia	2018	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2020	0	1	0	0	0	1
Washington	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	1	0	0	0	2
<b>Total</b>	2018	<b>42</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>42</b>
	2019	<b>42</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>44</b>
	2020	<b>44</b>	<b>19</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>63</b>

**TABLE NO. 5  
PROJECTED OPENINGS AS OF DECEMBER 31, 2020 FOR 2021**

State	Franchise Agreements Signed But Outlets Not Opened	Projected New Franchisee Outlets In The Next Fiscal Year	Projected New Company-Owned Outlets In The Next Fiscal Year
California	0	1	0
Florida	0	1	0
Georgia	0	1	0
Louisiana	0	1	0
North Carolina	0	1	0
Nevada	0	1	0
New York	0	1	0
Pennsylvania	0	1	0
South Carolina	0	1	0
Tennessee	0	1	0
Texas	0	1	0
Washington D.C.	0	1	0
<b>Total</b>	<b>0</b>	<b>12</b>	<b>0</b>

As of the date of this Disclosure Document, there are no franchisees or franchised locations. There were no franchisees who had a Franchise Agreement terminated, cancelled, not renewed, or who otherwise voluntarily or involuntarily ceased to do business under a Franchise Agreement during the most recently completed fiscal year, or who had not communicated with us within 10 weeks of the issuance date of this Disclosure Document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

No franchisees have signed confidentiality clauses restricting their ability to speak openly about their experience with the franchise system.

There are no trademark specific franchisee organizations associated with the franchise system.

## **ITEM 21. FINANCIAL STATEMENTS**

Attached as Exhibit B are: (i) the audited consolidated statements of our parent, RLHC and its subsidiaries, consisting of the audited consolidated balance sheets of RLHC as of December 31, 2020, December 31, 2019, and December 31, 2018, and the related consolidated statements of comprehensive income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020; and (ii) an unaudited balance sheet as of July 31, 2021 and the related statement of income for the seven-month period then-ended.

SRLHF is a wholly-owned subsidiary of RLHC, and RLHC absolutely and unconditionally guarantees to assume the duties and obligations of SRLHF under the Franchise Agreements entered into while SRLHF is an affiliate of RLHC. A copy of the RLHC guaranty is attached as Exhibit C to this disclosure document.

## **ITEM 22. CONTRACTS**

The following contracts are exhibits to this disclosure document:

Exhibit D	Franchise Agreement (including the Guaranty and Assumption of Obligations attached as Exhibit D to the Franchise Agreement)
Exhibit E	Incentive Promissory Note
Exhibit F	Representations and Acknowledgment Statement
Exhibit G	Sample General Release
Exhibit I	State Addenda and Agreement Riders

## **ITEM 23. RECEIPTS**

Exhibit J contains detachable documents acknowledging your receipt of the disclosure document.

**EXHIBIT A**

**STATE AGENCIES/AGENTS FOR SERVICE OF PROCESS**

**STATE AGENCIES/AGENTS FOR SERVICE OF PROCESS**

Listed here are the names, addresses and telephone numbers of the state agencies having responsibility for the franchising disclosure/registration laws. We may not yet be registered to sell franchises in any or all of these states. There may be states in addition to those listed below in which we have appointed an agent for service of process. There may also be additional agents appointed in some of the states listed.

**CALIFORNIA**

Department of Financial Protection &  
Innovation:  
(866) 275-2677

***Los Angeles***

Suite 750  
320 West 4<sup>th</sup> Street  
Los Angeles, California 90013-2344  
(213) 576-7500

***Sacramento***

2101 Arena Boulevard  
Sacramento, California 95834  
(916) 445-7205

***San Diego***

1455 Frazee Road, Suite 315  
San Diego, California 92108  
(619) 610-2093

***San Francisco***

One Sansome Street, Ste. 600  
San Francisco, California 94104-4428  
(415) 972-8559

**HAWAII**

(state administrator)

Business Registration Division  
Securities Compliance Branch  
Department of Commerce and Consumer Affairs  
P.O. Box 40  
Honolulu, Hawaii 96810  
(808) 586-2727

(agent for service of process)

Commissioner of Securities of the State of Hawaii  
Department of Commerce and Consumer Affairs  
Business Registration Division  
Commissioner of Securities  
335 Merchant Street, Room 205  
Honolulu, Hawaii 96813  
(808) 586-2744

**ILLINOIS**

Franchise Bureau  
Office of the Attorney General  
500 South Second Street  
Springfield, Illinois 62706  
(217) 782-4465

**INDIANA**

(state administrator)

Indiana Secretary of State  
302 West Washington Street  
Securities Division, E-111  
Indianapolis, Indiana 46204  
(317) 232-6681

(agent for service of process)

Indiana Secretary of State  
200 West Washington Street, Room 201  
Indianapolis, Indiana 46204  
(317) 232-6531

**MARYLAND**

(state administrator)

Office of the Attorney General  
Securities Division  
200 St. Paul Place  
Baltimore, Maryland 21202-2021  
(410) 576-6300

(agent for service of process)

Maryland Securities Commissioner  
at the Office of the Attorney General  
Securities Division  
200 St. Paul Place  
Baltimore, Maryland 21202-2021  
(410) 576-6360

**MICHIGAN**

(state administrator)

Michigan Attorney General's Office  
Consumer Protection Division  
Attn: Franchise Section  
G. Mennen Williams Building  
525 West Ottawa Street  
Lansing, Michigan 48909  
(517) 373-7622

(agent for service of process)

Michigan Department of Commerce,  
Corporations, Securities & Commercial Licensing  
Bureau  
P.O. Box 30018  
Lansing, Michigan 48909

**MINNESOTA**

(state administrator)

Minnesota Department of Commerce  
85 7th Place East, Suite 280  
St. Paul, Minnesota 55101  
(651) 539-1600

(agent for service of process)

Commissioner of Commerce  
Minnesota Department of Commerce  
85 7th Place East, Suite 280  
St. Paul, Minnesota 55101  
(651) 539-1600

**NEW YORK**

(state administrator)

Office of the New York State Attorney General  
Investor Protection Bureau  
Franchise Section  
28 Liberty Street, 21<sup>st</sup> Floor  
New York, NY 10005  
(212) 416-8236 Phone  
(212) 416-6042 Fax

(agent for service of process)

Attention: New York Secretary of State  
New York Department of State  
One Commerce Plaza,  
99 Washington Avenue, 6th Floor  
Albany, NY 12231-0001  
(518) 473-2492

**NORTH DAKOTA**

(state administrator)

North Dakota Securities Department  
600 East Boulevard Avenue  
State Capitol - Fifth Floor  
Bismarck, North Dakota 58505  
(701) 328-4712

(agent for service of process)

Securities Commissioner  
600 East Boulevard Avenue  
State Capitol - Fifth Floor  
Bismarck, North Dakota 58505  
(701) 328-4712

**OREGON**

Department of Business Services Division of  
Financial Regulation  
350 Winter Street, NE, Room 410  
Salem, Oregon 97310-3881  
(503) 378-4387

**RHODE ISLAND**

Department of Business Regulation  
Division of Securities  
John O. Pastore Complex Building 69-1  
1511 Pontiac Avenue  
Cranston, Rhode Island 02920  
(401) 462-9645

**SOUTH DAKOTA**

Division of Insurance  
Securities Regulation  
124 S. Euclid, Second Floor  
Pierre, South Dakota 57501  
(605) 773-3563

**VIRGINIA**

(state administrator)

State Corporation Commission  
Division of Securities  
and Retail Franchising  
1300 East Main Street, Ninth Floor  
Richmond, Virginia 23219  
(804) 371-9051

(agent for service of process)

Clerk, State Corporation Commission  
1300 East Main Street, First Floor  
Richmond, Virginia 23219  
(804) 371-9733

**WASHINGTON**

(state administrator)

Department of Financial Institutions  
Securities Division  
P.O. Box 9033  
Olympia, Washington 98507-9033  
(360) 902-8760

(agent for service of process)

Director  
Department of Financial Institutions  
Securities Division  
150 Israel Road, S.W.  
Tumwater, Washington 98501

**WISCONSIN**

(state administrator)

Securities and Franchise Registration  
Wisconsin Department of Financial Institutions  
4822 Madison Yards Way, North Tower  
Madison, Wisconsin 53705  
(608) 266-0448

(agent for service of process)

Office of the Secretary  
Wisconsin Department of Financial Institutions  
P.O. Box 8861  
Madison, Wisconsin 53708-8861  
(608) 261-9555

**EXHIBIT B**  
**FINANCIAL STATEMENTS**



**RED LION HOTELS CORPORATION**  
**Consolidated Statement of Comprehensive Loss**  
*(unaudited)*  
*(In thousands, except per share data)*

	<b>Seven Months Ended July 31, 2021</b>
<b>Revenue:</b>	
Royalty	\$ 8,896
Marketing, reservations and reimbursables	12,417
Other franchise	1,575
Company operated hotels	5,498
Other	
<b>Total revenues</b>	<b>28,386</b>
<b>Operating expenses:</b>	
Selling, general, administrative and other expenses	9,837
Company operated hotels	5,565
Marketing, reservations and reimbursables	10,390
Depreciation and amortization	4,070
Loss on asset dispositions, net	153
Transaction and integration costs	3,840
<b>Total operating expenses</b>	<b>33,855</b>
Operating loss	(5,469)
<b>Other income (expense):</b>	
Interest expense	(31)
Other income, net	5
<b>Total other income (expense)</b>	<b>(26)</b>
Loss before taxes	(5,495)
Income tax expense	24
<b>Net loss</b>	<b>(5,519)</b>
Net loss attributable to noncontrolling interest	203
<b>Net loss and comprehensive loss attributable to RLH Corporation</b>	<b>\$ (5,316)</b>
<b>Loss per share - basic</b>	<b>\$ (0.21)</b>
<b>Loss per share - diluted</b>	<b>\$ (0.21)</b>
<b>Weighted average shares - basic</b>	<b>25,465</b>
<b>Weighted average shares - diluted</b>	<b>25,465</b>

THESE FINANCIAL STATEMENTS WERE PREPARED WITHOUT AN AUDIT. INVESTORS IN OR SELLERS OF FRANCHISES SHOULD BE ADVISED THAT NO CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR EXPRESSED HIS OPINION WITH REGARD TO THEIR CONTENTS OR FORM.

**RED LION HOTELS CORPORATION****Consolidated Balance Sheet***(unaudited)**(In thousands, except share data)***July 31, 2021****ASSETS**

Current assets:	
Cash and cash equivalents	\$ 11,177
Accounts receivable, net of allowance for doubtful accounts of \$7,710 and \$7,712, respectively	5,363
Notes receivable, net	173
Other current assets	3,727
Total current assets	20,440
Property and equipment, net	12,980
Operating lease right-of-use assets	4,254
Goodwill	18,374
Intangible assets, net	21,450
Other assets, net	3,236
Total assets	\$ 80,734

**LIABILITIES**

Current liabilities:	
Accounts payable	\$ 2,657
Due to related party	340
Accrued payroll and related benefits	1,005
Other accrued liabilities	2,243
Operating lease liabilities, due within one year	1,574
Total current liabilities	7,819
Operating lease liabilities, due after one year	3,707
Deferred income and other long-term liabilities	1,081
Deferred income taxes	406
Total liabilities	13,013
Commitments and contingencies	

**STOCKHOLDERS' EQUITY**

RLH Corporation stockholders' equity:	
Preferred stock - 5,000,000 shares authorized; \$0.01 par value; no shares issued or outstanding	—
Common stock - 50,000,000 shares authorized; \$0.01 par value; 25,464,899 and 25,464,899 shares issued and outstanding	255
Additional paid-in capital, common stock	84,809
Accumulated deficit	(17,343)
Total stockholders' equity	67,721
Total liabilities and stockholders' equity	\$ 80,734

THESE FINANCIAL STATEMENTS WERE PREPARED WITHOUT AN AUDIT. INVESTORS IN OR SELLERS OF FRANCHISES SHOULD BE ADVISED THAT NO CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR EXPRESSED HIS OPINION WITH REGARD TO THEIR CONTENTS OR FORM.

# **RED LION HOTELS CORPORATION**

## Financial Statements

As of and for the years ended December 31, 2020, 2019 and 2018



Tel: 509-747-8095  
Fax: 509-747-0415  
www.bdo.com

601 West Riverside Ave Suite 900  
Spokane, WA 99201

## Independent Auditor's Report

Board of Directors  
Red Lion Hotels Corporation  
Denver, Colorado

### *Opinion*

We have audited the consolidated financial statements of Red Lion Hotels Corporation (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive loss, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.



### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*BDO USA, LLP*

Spokane, Washington  
March 22, 2021

**RED LION HOTELS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2020 and 2019**

2020      2019  
(In thousands, except share data)

**ASSETS**

<b>Current assets:</b>		
Cash and cash equivalents (\$1,287 and \$1,819 attributable to VIEs)	\$ 34,221	\$ 29,497
Restricted cash (\$100 and \$2,311 attributable to VIEs)	100	2,311
Accounts receivable, net of an allowance for doubtful accounts \$7,712 and \$4,589, respectively (\$178 and \$1,033 attributable to VIEs)	7,310	15,143
Notes receivable, net	455	5,709
Other current assets (\$143 and \$311 attributable to VIEs)	4,065	5,849
<b>Total current assets</b>	<b>46,151</b>	<b>58,509</b>
Property and equipment, net (\$7,698 and \$29,848 attributable to VIEs)	27,533	68,668
Operating lease right-of-use assets (\$— and \$10,810 attributable to VIEs)	4,723	48,283
Goodwill	18,595	18,595
Intangible assets, net	35,303	48,612
Other assets, net (\$— and \$703 attributable to VIEs)	2,491	3,851
<b>Total assets</b>	<b>\$ 134,796</b>	<b>\$ 246,518</b>

**LIABILITIES**

<b>Current liabilities:</b>		
Accounts payable (\$143 and \$589 attributable to VIEs)	\$ 4,359	\$ 5,510
Accrued payroll and related benefits (\$54 and \$349 attributable to VIEs)	984	2,709
Other accrued liabilities (\$169 and \$455 attributable to VIEs)	3,585	5,469
Long-term debt, due within one year (\$5,594 and \$16,984 attributable to VIEs)	5,594	16,984
Operating lease liabilities, due within one year (\$— and \$966 attributable to VIEs)	1,559	4,809
<b>Total current liabilities</b>	<b>16,081</b>	<b>35,481</b>
Long-term debt, due after one year, net of debt issuance costs (\$— and \$5,576 attributable to VIEs)	—	5,576
Line of credit, due after one year	—	10,000
Operating lease liabilities, due after one year (\$— and \$11,938 attributable to VIEs)	4,479	46,592
Deferred income and other long-term liabilities (\$— and \$28 attributable to VIEs)	571	1,105
Deferred income taxes	405	743
<b>Total liabilities</b>	<b>21,536</b>	<b>99,497</b>

Commitments and contingencies (Note 10)

**STOCKHOLDERS' EQUITY**

<b>RLH Corporation stockholders' equity:</b>		
Preferred stock - 5,000,000 shares authorized; \$0.01 par value; no shares issued or outstanding	—	—
Common stock - 50,000,000 shares authorized; \$0.01 par value; 25,464,899 and 25,148,005 shares issued and outstanding	255	251
Additional paid-in capital, common stock	179,831	181,608
Accumulated deficit	(68,050)	(36,875)
<b>Total RLH Corporation stockholders' equity</b>	<b>112,036</b>	<b>144,984</b>
Noncontrolling interest	1,224	2,037
<b>Total stockholders' equity</b>	<b>113,260</b>	<b>147,021</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 134,796</b>	<b>\$ 246,518</b>

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

**RED LION HOTELS CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**For the Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u> (Revised)
	(In thousands, except per share data)	
Revenue:		
Royalty	\$ 15,103	\$ 21,778
Marketing, reservations and reimbursables	20,470	31,146
Other franchise	3,313	6,321
Company operated hotels	12,921	55,029
Other	—	14
Total revenues	<u>51,807</u>	<u>114,288</u>
Operating expenses:		
Selling, general, administrative and other expenses	29,929	29,420
Company operated hotels	14,445	48,612
Marketing, reservations and reimbursables	18,445	29,292
Depreciation and amortization	9,663	14,567
Asset impairment	15,915	14,128
Gain on asset dispositions, net	(7,405)	(7,067)
Transaction and integration costs	4,583	632
Total operating expenses	<u>85,575</u>	<u>129,584</u>
Operating loss	(33,768)	(15,296)
Other income (expense):		
Interest expense	(641)	(5,157)
Loss on early retirement of debt	(1,309)	(428)
Other income, net	254	161
Total other income (expense)	<u>(1,696)</u>	<u>(5,424)</u>
Loss before taxes	(35,464)	(20,720)
Income tax expense (benefit)	(1,100)	253
Net loss	(34,364)	(20,973)
Net loss attributable to noncontrolling interest	3,189	1,944
Net loss and comprehensive loss attributable to RLH Corporation	<u>\$ (31,175)</u>	<u>\$ (19,029)</u>
Loss per share - basic	\$ (1.23)	\$ (0.76)
Loss per share - diluted	\$ (1.23)	\$ (0.76)
Weighted average shares - basic	25,349	24,931
Weighted average shares - diluted	25,349	24,931

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

**RED LION HOTELS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the Years Ended December 31, 2020 and 2019**

Red Lion Hotels Corporation Stockholders' Equity							
Common Stock			Retained Earnings (Accumulated Deficit)	RLH Corporation Total Equity	Equity Attributable to Non-controlling Interest	Total Equity	
Shares	Amount	Additional Paid-In Capital					
(In thousands, except share data)							
<b>Balances, December 31, 2018</b>	24,570,158	\$ 246	\$ 182,018	\$ (17,846)	\$ 164,418	\$ 21,164	\$185,582
Net loss	—	—	—	(19,029)	(19,029)	(1,944)	(20,973)
Shared based payment activity	577,847	5	(34)	—	(29)	—	(29)
Reclassification of noncontrolling interest	—	—	(376)	—	(376)	376	—
Distributions to noncontrolling interests	—	—	—	—	—	(17,559)	(17,559)
<b>Balances, December 31, 2019</b>	25,148,005	251	181,608	(36,875)	144,984	2,037	147,021
Net loss	—	—	—	(31,175)	(31,175)	(3,189)	(34,364)
Shared based payment activity	316,894	4	599	—	603	—	603
Reclassification of noncontrolling interest	—	—	(2,376)	—	(2,376)	2,376	—
<b>Balances, December 31, 2020</b>	<u>25,464,899</u>	<u>\$ 255</u>	<u>\$ 179,831</u>	<u>\$ (68,050)</u>	<u>\$ 112,036</u>	<u>\$ 1,224</u>	<u>\$113,260</u>

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



**RED LION HOTELS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
	(In thousands)	
<b>Operating activities:</b>		
Net loss	\$ (34,364)	\$ (20,973)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,663	14,567
Noncash PIK interest and amortization of debt issuance costs	200	1,077
Amortization of key money and contract costs	981	1,166
Amortization of contract liabilities	(793)	(1,167)
Gain on asset dispositions, net	(7,405)	(7,067)
Loss on early retirement of debt	1,309	276
Asset impairment	15,915	14,128
Deferred income taxes	(338)	(29)
Stock based compensation expense	605	1,780
Provision for doubtful accounts	11,236	3,935
Change in current assets and liabilities:		
Accounts receivable	1,855	(89)
Key money disbursements	(560)	(857)
Other current assets	1,597	(248)
Accounts payable	(1,289)	380
Other accrued liabilities	(3,112)	(1,497)
Net cash provided by (used in) operating activities	<u>(4,500)</u>	<u>5,382</u>
<b>Investing activities:</b>		
Capital expenditures	(1,852)	(4,939)
Net proceeds from disposition of property and equipment	37,329	44,137
Collection of notes receivable	31	283
Advances on notes receivable	(200)	(90)
Net cash provided by investing activities	<u>35,308</u>	<u>39,391</u>
<b>Financing activities:</b>		
Borrowings on long-term debt, net of discounts	4,234	32,935
Repayment of long-term debt and finance leases	(21,970)	(45,943)
Repayment of line of credit borrowing	(10,000)	—
Prepayment penalty on long-term debt	(559)	—
Debt issuance costs	—	(253)
Distributions to noncontrolling interest	—	(17,559)
Stock-based compensation awards canceled to settle employee tax withholding	(82)	(2,150)
Stock option and stock purchase plan issuances, net and other	82	216
Net cash used in financing activities	<u>(28,295)</u>	<u>(32,754)</u>
<b>Change in cash, cash equivalents and restricted cash:</b>		
Net increase in cash, cash equivalents and restricted cash	2,513	12,019
Cash, cash equivalents and restricted cash at beginning of year	31,808	19,789
Cash, cash equivalents and restricted cash at end of year	<u>\$ 34,321</u>	<u>\$ 31,808</u>

**RED LION HOTELS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)**  
**For the Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
	(In thousands)	
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid (refunded) during years for:		
Income taxes	\$ (223)	\$ 763
Interest on debt	\$ 508	\$ 4,938
Non-cash operating, investing and financing activities:		
Property and equipment, purchases not yet paid	\$ 52	\$ 182

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

**RED LION HOTELS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization**

Red Lion Hotels Corporation ("RLH Corporation," "RLHC," "we," "our," "us," or "our company") is a doing business as RLH Corporation and primarily engaged, through its subsidiaries, in the franchising and ownership of hotels of its proprietary brands, including the following brands that are being actively sold in the United States and Canada: Hotel RL, Red Lion Hotels, Red Lion Inn & Suites, GuestHouse Extended Stay, Americas Best Value Inn, Canadas Best Value Inn, Signature and Signature Inn, and Knights Inn.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. In Notes 5, 6, 7, 8 and 13 we have disclosed certain impacts of the COVID-19 outbreak, and the resulting Coronavirus Aid, Relief and Economic Security Act, to our business and results of operations. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce; however, given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the future effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity.

On December 30, 2020, RLH Corporation entered into a definitive merger agreement ("Merger Agreement") with Sonesta International Hotels Corporation ("Sonesta") under which RLHC will be acquired by Sonesta in an all-cash transaction. Under the terms of the Merger Agreement, holders of RLHC's common stock will receive \$3.50 per share in cash. On March 16, 2021, RLHC's shareholders voted and approved the Merger Agreement with Sonesta. On March 17, 2021, the Merger closed and consideration of \$3.50 per share, RSU, and PSU was transferred from Sonesta to RLHC shareholders and RSU and PSU holders for a total transaction price of \$90.1 million. At closing, RLHC incurred additional transaction costs of approximately \$5.2 million associated with the successful closing of the Merger Agreement. RLHC has delisted from the NYSE and provided notice to eliminate public filing requirements.

**2. Summary of Significant Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements have been prepared by us in accordance with generally accepted accounting principles in the United States of America (GAAP) and include all accounts and wholly and majority-owned subsidiaries' accounts. All significant inter-company and inter-segment transactions and accounts have been eliminated upon consolidation.

*Use of Estimates*

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

*Reclassifications*

For the year ended December 31, 2020, the amortization of key money was presented as a reduction to the *Royalty and Marketing, reservations, and reimbursables* revenue line items in our Consolidated Statements of Comprehensive Loss. In prior periods, this amortization was presented as a reduction to *Other franchise* revenues. We have reclassified this item in the Consolidated Statements of Comprehensive Loss for 2019 resulting in a reduction of *Royalty* revenues by \$0.4 million and *Marketing, reservations, and reimbursables* revenues by \$0.2 million, offset by an increase in *Other franchise* revenues of \$0.6 million. This had no impact on previously reported total revenues.

*Revenue Recognition*

Revenue is generally recognized as services are provided. Revenues are primarily derived from franchise contracts with third-party hotel owners, as well as from individual hotel guests and corporate patrons at our owned and leased hotels. The majority of compensation received for our performance obligations is variable or fixed consideration from our franchise contracts or fixed transactional guest consideration through our owned and leased hotels. We recognize the variable fees as the services to which they relate are delivered, applying the prescribed variable consideration allocation guidance. In certain circumstances we defer consideration and recognize consideration over time as the related performance obligations are satisfied.

#### Franchised hotels revenue

We identified the following services as one performance obligation in connection with our franchise contracts:

- *Intellectual Property (IP)* licenses grant a non-exclusive, limited revocable license to the RLHC trademarks and hotel names.
- *Manual and Training Services* provide operational assistance unique to the RLHC brands, business model and standards.
- *Reservation Services* are provided through direct or indirect system access.
- *Marketing Services and Arrangements* benefit the overall hotel network and include brand promotions, direct guest marketing, brand name marketing and various other programs targeted at advertising to guests.
- *Brand Conference* is provided typically annually for third party owners to gather and attend educational seminars and brand informational presentations.

The performance obligation related to franchise revenues is delivered over time. While the underlying services may vary from day to day, the nature of the promises are the same each day, other than the Brand Conference, which is recognized in the month the service is provided, and the property owner can independently benefit from each day's services. Franchise fees for midscale agreements are typically based on the sales or usage of the underlying hotel, with the exception of fixed upfront fees that usually represent an insignificant portion of the transaction price. In addition, we have certain franchise agreements that contain a declining royalty rate over the term of the contract. Revenue for these contracts cannot be recognized based on the underlying sales or usage of the hotel, but are instead accounted for as variable consideration recognized ratably over the term of the agreements. Franchise fees for economy agreements are typically fixed fee for royalties and marketing based on the room count of the hotel.

*Franchised hotels revenue* represent fees earned in connection with the licensing of one of our brands, usually under long-term contracts with the property owner, and include the following:

- *Royalty fees* are generally based on a percentage of a hotel's monthly gross room revenue or a fixed monthly fee based on room count. These fees are typically billed and collected monthly, and revenue is generally recognized at the same time the fees are billed.
- *Marketing, reservations and reimbursables* are associated with our brands and shared services, which are paid from fees collected by us from the franchised properties. Revenue is generally recognized on a gross basis as fees are billed, which are based on the underlying hotel's sales or usage (e.g., gross room revenues and number of reservations processed) and expenses are expected to equal the revenues over time.
- *Other franchise fees* are primarily charges for services provided to franchised properties for revenue management and quality assurance inspections. In addition, this includes application, initiation and other fees that are charged when: (i) new hotels enter our system, (ii) there is a change of ownership, or (iii) contracts with properties already in our system are extended or modified. These fees are typically fixed and collected upfront and are recognized as revenue over the term of the franchise contract.

Any consideration paid or anticipated to be paid to incentivize hotel owners to enter into franchise contracts is capitalized and reduces revenues as amortized. The commission or direct costs of acquiring the contract or modification are recorded as contract acquisition costs and are recognized in franchise costs when amortized on a straight-line basis over the length of the contract.

#### Company operated hotels revenue

We identified the following performance obligations in connection with our owned and leased hotel revenues, for which revenue is recognized as the respective performance obligations are satisfied, which results in recognizing the amount we expect to be entitled to for providing the goods or services to the hotel customer or guest:

- *Room reservations or ancillary services* are typically satisfied as the good or service is transferred to the hotel guest, which is generally when the room stay occurs.
- *Other ancillary goods and services* are purchased independently of the room reservation at standalone selling prices and are considered separate performance obligations, which are satisfied when the related good or service is provided to the hotel guest.

*Company operated hotels revenue* primarily consist of hotel room rentals, revenue from accommodations sold in conjunction with other services (e.g., package reservations), food and beverage sales and other ancillary goods and services (e.g., parking) related to owned, leased and consolidated non-wholly owned (joint venture) hotel properties. Revenue is recognized when rooms are occupied or goods and services have been delivered or rendered, respectively. Payment terms typically align with when the goods and services are provided.

#### Other revenues

*Other revenues* include revenues generated by the incidental support of hotel operations for owned, leased, and franchised hotels, including purchasing operations, and other operating income.

#### Taxes and fees collected on behalf of governmental agencies

We are required to collect certain taxes and fees from customers on behalf of governmental agencies and remit these back to the applicable governmental agencies on a periodic basis. We have a legal obligation to act as a collection agent. We do not retain these taxes and fees and, therefore, they are not included in our measurement of transaction prices. We have elected to present revenue net of sales taxes and other similar taxes. We record a liability when the amounts are collected and relieve the liability when payments are made to the applicable taxing authority or other appropriate governmental agency.

#### *Cash and Cash Equivalents*

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. At times, cash balances at banks and other financial institutions may be in excess of federal insurance limits.

#### *Restricted Cash*

In accordance with our various borrowing arrangements, cash is often restricted and held primarily as reserves for debt service (interest only), property improvements and other requirements from the lenders.

#### *Notes Receivable*

We carry notes receivable at their estimated collection amount, and they are classified as either current or long-term depending on the expected collection date. Interest income on notes receivable is recognized using the interest method.

#### *Allowance for Doubtful Accounts*

The ability to collect individual accounts or notes receivable is reviewed on a routine basis. An allowance for doubtful accounts is recognized based on a combination of reserves calculated based on underlying characteristics of receivables (such as the age of the related receivable) as well as specifically identified amounts believed to be uncollectible. If actual collection experience changes, revisions to the allowance may be required and if all attempts to collect a receivable fail, it is recorded against the allowance. The estimate of the allowance for doubtful accounts may be impacted by, among other things, national and regional economic conditions.

The following schedule summarizes the activity in the allowance account for trade accounts receivable for the past two years (in thousands):

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Allowance for doubtful accounts</b>		
Balance, beginning of year	\$ 4,589	\$ 2,345
Additions to allowance	5,174	3,383
Write-offs, net of recoveries	(2,051)	(1,139)
Balance, end of year	<u>\$ 7,712</u>	<u>\$ 4,589</u>

The following schedule summarizes the activity in the allowance account for notes receivable for the past two years (in thousands):

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Allowance for doubtful accounts</b>		
Balance, beginning of year	\$ 552	\$ —
Additions to allowance	6,062	552
Write-offs	(5,769)	—
Balance, end of year	<u>\$ 845</u>	<u>\$ 552</u>

#### *Other Current Assets*

Other current assets primarily includes prepaid and other expenses such as prepaid insurance, prepaid taxes, deposits, advertising costs and prepaid costs related to our brand conferences. Other current assets also consists of inventories, which are mostly food and beverage products held for sale at the company operated restaurants and guest supplies. Inventories are valued at the lower of cost, determined on a first-in, first-out basis, or net realizable value.

#### *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation. The cost of improvements that extend the life of property and equipment are capitalized. Repairs and maintenance charges are recognized as incurred.

Depreciation is calculated using the straight-line method over the estimated useful life of each asset, which ranges as follows:

Buildings	25 to 39 years
Equipment	2 to 15 years
Furniture and fixtures	2 to 15 years
Landscaping and improvements	15 years

Leasehold improvements are capitalized and depreciated over the term of the applicable lease, including renewable periods if reasonably assured to be exercised based on economic conditions and factors, or over the useful lives, whichever is shorter.

#### *Leases*

We determine if an arrangement is a lease or contains a lease at inception. If an arrangement is a lease or contains a lease, we then determine whether the lease meets the criteria of a finance lease or an operating lease. Finance leases are included in *Property and equipment, net*, *Other accrued liabilities*, and *Deferred income and other long-term liabilities* in our Consolidated Balance Sheets. Operating leases are included in *Operating lease right-of-use assets*, *Operating lease liabilities, due within one year*, and *Operating lease liabilities, due after one year*, in our Consolidated Balance Sheets. We reassess if an arrangement is or contains a lease upon modification of the arrangement.

At the commencement date of a lease, we recognize a lease liability for contractual fixed lease payments and a corresponding right-of-use asset representing our right to use the underlying asset during the lease term. The lease liability is measured initially as the present value of the contractual fixed lease payments during the lease term. The lease term additionally includes

renewal periods only if it is reasonably certain that we will exercise the options. Contractual fixed lease payments are discounted at the rate implicit in the lease when readily determinable. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date. Additionally, we elected not to recognize leases with lease terms of 12 months or less at the commencement date in our Consolidated Balance Sheets. The right-of-use asset is recognized at the amount of the lease liability with certain adjustments, if applicable. These adjustments include lease incentives, prepaid rent, and initial direct costs.

#### *Indefinite-Lived Intangible Assets*

Through prior business combinations we have obtained intangible assets related to our Americas Best Value Inn, Canadas Best Value Inn, Guesthouse, Knights Inn, and Red Lion brands. At the time of each acquisition, the brands were assigned a fair value based on the relief from royalty method. As there are no limitations on the useful lives of these assets, we have determined they are indefinite-lived intangible assets that will not be amortized. Annually, on October 1, we reassess the useful lives of each asset to determine if they should continue to be classified as indefinite and we additionally test the assets for impairment. Impairment may also be tested at any point in which facts and circumstances indicate that it is more likely than not that the fair value of the asset is less than the carrying amount. As part of the impairment test, we may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of the asset is less than its carrying amount, or if we elect to bypass the qualitative assessment, we would then proceed with a quantitative assessment. The quantitative assessment involves calculating an estimated fair value of the asset using the relief from royalty method, and comparing the estimated fair value of the asset to its carrying amount. If the estimated fair value of the asset exceeds its carrying value, no impairment is recognized. However, if the carrying amount of the asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess.

On October 1, 2020, we recognized impairment losses on the Americas Best Value Inn, Knights Inn and Canadas Best Value Inn brand name indefinite-lived intangible assets of \$8.0 million, \$1.9 million and \$0.3 million, respectively. As of October 1, 2019, we recognized impairment losses on the Americas Best Value Inn and Knights Inn brand name indefinite-lived intangible assets of \$7.4 million and \$1.3 million, respectively. The impairment losses are included in *Asset impairment* in the Consolidated Statements of Comprehensive Loss. See further discussion of the impairment and reclassification at Note 6, *Goodwill and Intangible Assets*.

#### *Valuation of Long-Lived Assets Including Finite-Lived Intangible Assets*

We test long-lived asset groups, including finite-lived intangible assets, for recoverability when changes in circumstances indicate the carrying value may not be recoverable. For example, when there are material adverse changes in projected revenues or expenses, significant underperformance relative to historical or projected operating results, or significant negative industry or economic trends. We also perform a test for recoverability when management has committed to a plan to sell or otherwise dispose of an asset group. We evaluate recoverability of an asset group by comparing its carrying value to the future net undiscounted cash flows that we expect will be generated by the asset group. If the comparison indicates that the carrying value of an asset group is not recoverable, we recognize an impairment loss for the excess of carrying value over the estimated fair value. When we recognize an impairment loss for assets to be held and used, we depreciate the adjusted carrying amount of those assets over their remaining useful life.

During the year ended December 31, 2020, we recognized an impairment loss on our Red Lion Hotel Seattle Airport property of \$2.5 million and an impairment loss of \$3.2 million on our Hotel RL Olympia joint venture property. During the year ended December 31, 2019, we recognized an impairment loss on our Hotel RL Washington DC joint venture property of \$5.4 million. These losses are included in *Asset impairment* in the Consolidated Statements of Comprehensive Loss. See further discussion of the impairment losses at Note 5, *Property and Equipment*.

#### *Goodwill*

Goodwill is assigned to our reporting units based on the expected benefit from the synergies arising from each business combination, determined by using certain financial metrics. The reporting units are aligned with our reporting segments. Goodwill is not amortized, but we test goodwill for impairment each year as of October 1, or more frequently should facts and circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than the carrying amount. As part of the impairment test, we may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit, including goodwill, is less than its carrying amount, or if we elect to bypass the qualitative assessment, we would then proceed with a quantitative assessment. The quantitative assessment involves calculating an estimated fair value of each reporting unit based on projected future cash flows, and comparing the estimated fair values of the reporting units to their carrying amounts, including goodwill. If the estimated fair value of the

reporting unit exceeds its carrying value, including goodwill, no impairment is recognized. However, if the carrying amount of a reporting unit, including goodwill, exceeds its fair value, an impairment loss is recognized in an amount equal to the excess, limited to the total goodwill balance of the reporting unit.

We have not recognized any impairment on goodwill during the years ended December 31, 2020 and 2019.

#### *Variable Interest Entities*

We analyze the investments we make in joint venture entities based on the accounting guidance for variable interest entities (VIEs). These joint ventures are evaluated to determine whether (1) sufficient equity at risk exists for the legal entity to finance its activities without additional subordinated financial support or, (2) as a group, the holders of the equity investment at risk lack one of the following characteristics (a) the power, through voting or similar rights, to direct the activities of the legal entity that most significantly impact the entity's economic performance or, (b) the obligation to absorb the expected losses of the legal entity or (c) the right to receive expected residual returns of the legal entity, or (3) the voting rights of some equity investors are not proportional to their obligations to absorb the losses or the right to receive benefits and substantially all of the activities either involve or are conducted on behalf of an investor with disproportionately few voting rights. If any one of the above three conditions are met then the joint venture entities are considered to be VIEs.

We consolidate the results of any such VIE in which we determine that we are the primary beneficiary. We are considered to be the primary beneficiary of an entity if we have both the power to direct the activities that most significantly affect the VIE's economic performance and the obligation to absorb the losses of, or right to receive the benefits from, the VIE that could be potentially significant to the VIE.

#### *Other Assets*

Other assets primarily consist of key money arrangements with certain of our franchisees and IT system implementation and license costs, for both our franchisees and our company operated hotels. We recognize key money paid in conjunction with entering into long-term franchise agreements as prepaid expenses and amortize the amount paid as a reduction of revenue over the term of the franchise agreements. IT system implementation and license costs represent costs incurred to implement, operate and maintain RevPak, our proprietary guest management system application and are amortized over the initial term of the software license arrangement or the current license period, as applicable.

#### *Fair Value Measurements*

Applicable accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We measure our assets and liabilities using inputs from the following three levels of the fair value hierarchy:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.
- Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
- Level 3 includes unobservable inputs that reflect assumptions about what factors market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

#### *Income Taxes*

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning, and results of recent operations. At December 31, 2020 and 2019, a partial valuation allowance was recorded to reduce our deferred tax assets to an amount that is more likely than not



to be realized. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We classify any interest expense and penalties related to underpayment of taxes and any interest income on tax overpayments as components of income tax expense.

If applicable, we record uncertain tax positions in accordance with Accounting Standards Codification (ASC) 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. There were no uncertain tax positions during the years ended December 31, 2020 and 2019.

#### *Advertising and Promotion*

Costs associated with advertising and promotional efforts are generally recognized as incurred. During the years ended December 31, 2020 and 2019, we incurred approximately \$2.2 million and \$2.3 million, respectively, in advertising expense included in *Marketing, reservations, and reimbursables expense* in the Consolidated Statements of Comprehensive Loss.

#### *Basic and Diluted Earnings (Loss) Per Share*

Basic earnings (loss) per share attributable to RLH Corporation is computed by dividing income (loss) attributable to RLH Corporation by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share attributable to RLH Corporation gives effect to all dilutive potential shares that are outstanding during the period and include outstanding stock options, other outstanding employee equity grants and warrants, by increasing the weighted-average number of shares outstanding by their effect. See Note 12 *Earnings (Loss) Per Share*.

#### *New Accounting Pronouncements Not Yet Adopted*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments*, which will change how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The ASU will replace the current "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For trade and other receivables, held to maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowances for losses. In October 2019, an update was issued to the standard that deferred the effective date of the guidance to the first quarter of 2023 for smaller reporting companies such as us. We are currently evaluating the effects of this ASU on our financial statements, and such effects have not yet been determined.

We have assessed the potential impact of other recently issued, but not yet effective, accounting standards and determined that the provisions are either not applicable to us or are not anticipated to have a material impact on our consolidated financial statements.

### **3. Business Segments**

We have two operating segments: franchised hotels and company operated hotels. The "other" segment consists of miscellaneous revenues and expenses, cash and cash equivalents, certain receivables, certain property and equipment and general and administrative expenses, which are not specifically associated with an operating segment. Management reviews and evaluates the operating segments exclusive of interest expense, income taxes and certain corporate expenses; therefore, they have not been allocated to the operating segments. We allocate direct selling, general, administrative and other expenses to our operating segments. All balances have been presented after the elimination of inter-segment and intra-segment revenues and expenses.

Selected financial information is provided below (in thousands):

<b>Year Ended December 31, 2020</b>	<b>Franchised Hotels</b>	<b>Company Operated Hotels</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 38,886	\$ 12,921	\$ —	\$ 51,807
Operating expenses:				
Segment and other operating expenses	35,501	15,633	11,685	62,819
Depreciation and amortization	3,555	2,178	3,930	9,663
Asset impairment	10,254	5,661	—	15,915
Loss (gain) on asset dispositions, net	375	(8,131)	351	(7,405)
Transaction and integration costs	—	54	4,529	4,583
Operating loss	\$ (10,799)	\$ (2,474)	\$ (20,495)	\$ (33,768)
Capital expenditures	\$ —	\$ 86	\$ 1,766	\$ 1,852
Identifiable assets as of December 31, 2020	\$ 65,156	\$ 28,052	\$ 41,588	\$ 134,796

<b>Year Ended December 31, 2019</b>	<b>Franchised Hotels</b>	<b>Company Operated Hotels</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 59,245	\$ 55,029	\$ 14	\$ 114,288
Operating expenses:				
Segment and other operating expenses	41,474	50,514	15,336	107,324
Depreciation and amortization	4,033	7,161	3,373	14,567
Asset impairment	8,746	5,382	—	14,128
Loss (gain) on asset dispositions, net	(1)	(7,188)	122	(7,067)
Transaction and integration costs	90	276	266	632
Operating income (loss)	\$ 4,903	\$ (1,116)	\$ (19,083)	\$ (15,296)
Capital expenditures	\$ 1,426	\$ 526	\$ 2,987	\$ 4,939
Identifiable assets as of December 31, 2019	\$ 91,832	\$ 118,415	\$ 36,271	\$ 246,518

#### 4. Variable Interest Entities

Our joint venture entities have been determined to be variable interest entities (VIEs), and RLH Corporation has been determined to be the primary beneficiary of each VIE. Therefore, we consolidate the assets, liabilities, and results of operations of (1) RL Venture LLC (RL Venture), (2) RLS Atla Venture LLC (RLS Atla Venture) and (3) RLS DC Venture LLC (RLS DC Venture). Subsequent to the hotel sales in the fourth quarter of 2019 and the first quarter of 2020 discussed further below, RLS Atla Venture and RLS DC Venture have had no additional financial statement activity and have no remaining asset or liability balances.

There were no cash contributions or distributions by partners to any of the joint venture entities during the years ended December 31, 2020 or 2019, except as otherwise described below.

##### *RL Venture*

We own a 55% interest in RL Venture, with the remaining 45% owned by Shelbourne Falcon RLHC Hotel Investors LLC (Shelbourne Falcon), an entity that is led by Shelbourne Capital LLC (Shelbourne). The hotels owned by RL Venture were managed by RL Management, one of our wholly-owned subsidiaries, subject to a management agreement until December 2018, at which point management of the hotels was outsourced to a third party management company. RL Venture is considered a variable interest entity because our voting rights are not proportional to our financial interest and substantially all of RL Venture's activities are conducted on our behalf. We have determined that we are the primary beneficiary as (a) we exert power over two of the entity's key activities (hotel operations and property renovations) and share power over the remaining key activities with Shelbourne Falcon, which does not have the unilateral ability to exercise kick-out rights, and (b) we have the

obligation to absorb losses and right to receive benefits that could be significant to the entity through our 55% equity interest and management fees. As a result, we consolidate RL Venture. The equity interest owned by Shelbourne Falcon is reflected as a noncontrolling interest in the consolidated financial statements.

In March 2019, secured loans with an aggregate principal of \$16.6 million were entered into for two RL Venture properties, Hotel RL Salt Lake City and Hotel RL Olympia. Shortly thereafter, the net loan proceeds were distributed to us and our joint venture partner in accordance with our respective ownership percentages.

In December 2019, the Hotel RL Salt Lake City sold for \$33.0 million. Proceeds from the 2019 RL Venture sale of the Hotel RL Salt Lake City were used to repay in full the secured loan entered into in 2019 for the Hotel RL Salt Lake City property as discussed further in Note 8, *Debt and Line of Credit*. As of December 31, 2020, RL Venture holds one remaining property, the Hotel RL Olympia, owned through RL Olympia, LLC.

Cash distributions may also be made periodically based on calculated distributable income. For the year ended December 31, 2019, RL Venture made cash distributions of \$39.1 million, of which we received \$21.5 million.

In February 2021, the Hotel RL Olympia sold for \$8.0 million. Proceeds from this sale were used to repay in full the secured loan entered into in 2019 for the Hotel RL Olympia property as discussed further in Note 8, *Debt and Line of Credit*. We anticipate making a final distribution to Shelbourne Falcon based on their proportional share of net assets remaining in RL Venture after the closing.

#### *RLS Atla Venture*

We own a 55% interest in RLS Alta Venture and Shelbourne Falcon Big Peach Investors LLC (Shelbourne Falcon III), an entity led by Shelbourne, owns a 45% interest. RLS Atla Venture was considered a variable interest entity because our voting rights were not proportional to our financial interest and substantially all of RLS Atla Venture's activities were conducted on our behalf. We determined that we were the primary beneficiary as (a) we exerted power over the entity's key activities (hotel operations and property renovations) and shared power over the remaining key activities with Shelbourne Falcon III, which did not have the unilateral ability to exercise kick-out rights, and (b) we had the obligation to absorb losses and right to receive benefits that could be significant to the entity through our 55% equity interest and management fees. As a result, we consolidated RLS Atla Venture.

RLH Atlanta LLC (RLH Atlanta), which is wholly-owned by RLS Atla Venture, owned a hotel adjacent to the Atlanta International Airport that opened in April 2016 as the Red Lion Hotel Atlanta International Airport, which was managed by RL Management. The Red Lion Hotel Atlanta International Airport hotel was sold in November 2019 for \$12.3 million. RLS Alta Venture, LLC received \$4.8 million in cash proceeds from the sale after various prorations, selling costs, and the full repayment of the outstanding principal of the RLH Atla Venture mortgage loan. Of the net cash proceeds, RLH Corporation received the entire \$4.8 million. Shelbourne Falcon III did not receive any distributions as a result of amounts due to RLH Corporation from RLS Atla Venture and RLH preferred equity. The \$0.4 million balance remaining in non-controlling interest for the entity was reclassified to *Additional paid-in capital* on the Consolidated Balance Sheets as no remaining distributions to the joint venture partner are required.

#### *RLS DC Venture*

We own 55% of RLS DC Venture, and Shelbourne Falcon DC Investors LLC (Shelbourne Falcon IV), an entity led by Shelbourne, owns 45%. RLH DC LLC, which is wholly-owned by RLS DC Venture, owned a Hotel RL in Washington DC, which was managed by RL Management until December 2018, at which point management of the hotel was outsourced to a third party management company. RLS DC Venture was considered a variable interest entity because our voting rights were not proportional to our financial interest, and substantially all of RLS DC Venture's activities were conducted on our behalf. We determined that we were the primary beneficiary as (a) we exerted power over the entity's key activities (hotel operations and property renovations) and shared power over the remaining key activities with Shelbourne Falcon IV, which did not have the unilateral ability to exercise kick-out rights, and (b) we had the obligation to absorb losses and right to receive benefits that could be significant to the entity through our 55% equity interest and management fees. As a result, we consolidated RLS DC Venture.

In May 2019, a secured loan with principal and accrued exit fee of \$17.4 million was executed by RLS DC Venture. The net loan proceeds were used to pay off previous debt with a principal balance of approximately \$15.9 million. There were no cash distributions resulting from the refinancing.

In February 2020, the Hotel RL in Washington DC, which was wholly-owned by RLS DC Venture, was sold for \$16.4 million. Using proceeds from the sale, together with the release of \$2.3 million in restricted cash held by CP Business Finance I, LP, RLS DC Venture repaid the remaining outstanding principal balance and accrued exit fee under the secured loan agreement. The \$2.4 million balance remaining in non-controlling interest for the entity was reclassified to *Additional paid-in capital* on the Consolidated Balance Sheets as no remaining distributions to the joint venture partner are required.

## 5. Property and Equipment

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

	December 31,	
	2020	2019
Buildings and equipment	\$ 31,818	\$ 101,619
Furniture and fixtures	2,442	12,407
Landscaping and land improvements	294	2,038
	34,554	116,064
Less accumulated depreciation	(13,191)	(57,491)
	21,363	58,573
Land	5,595	6,871
Construction in progress	575	3,224
Property and equipment, net	<u>\$ 27,533</u>	<u>\$ 68,668</u>

A novel strain of coronavirus (COVID-19) was first identified in Wuhan, China in December 2019, and subsequently declared a pandemic by the World Health Organization on March 11, 2020. To date, COVID-19 has surfaced in nearly all regions around the world and resulted in travel restrictions and business slowdowns or shutdowns in affected areas. The economic impact of the pandemic thus far has been extremely punitive to travel related businesses across the nation, significantly affecting the operating results of companies within the hospitality industry. In the first quarter of 2020, we considered the actual and anticipated economic impacts of the COVID-19 pandemic on our financial results to be an indicator that the carrying value of our long-lived assets might not be recoverable. Accordingly, we performed a test for recoverability using probability-weighted undiscounted cash flows on our long-lived assets as of March 31, 2020. Only the Red Lion Hotel Seattle Airport ("RLH Seattle"), one of our company operated hotel properties under a lease through February 2024, did not recover the carrying value of the long-lived asset group in the test for recoverability, due to the short useful life and lack of terminal value. After calculating the fair value of the RLH Seattle property long-lived asset group, we recognized an impairment loss of \$1.8 million in the first quarter of 2020.

During the third quarter of 2020, we noted an additional indicator that the carrying value of our long-lived assets might not be recoverable at RLH Seattle as the impacts of COVID-19 on business travel have been worse than initially projected in the first quarter of 2020, particularly impacting this airport location. We performed an updated test for recoverability using probability-weighted cash flows on the long-lived assets of RLH Seattle as of September 30, 2020, noting they did not recover the carrying value of the long-lived asset group. After calculating the fair value of the property's asset group, we recognized an additional impairment loss of \$0.7 million in the third quarter of 2020.

Fair values for the RLH Seattle property were determined based on a discounted cash flow analysis, which is a Level 3 fair value measurement. The impairment losses were allocated to the assets within the long-lived asset group on a pro rata basis, with \$2.1 million applied against the hotel building leasehold interest and other equipment, included within *Property and equipment, net* and \$0.4 million applied against the *Operating lease right-of-use asset* on the Consolidated Balance Sheets.

In the fourth quarter of 2020, we entered into a non-binding sales agreement with a third party for the Hotel RL Olympia, another of our company operated properties. Due to the potential for disposal within 12 months, we performed an updated test for recoverability using probability-weighted cash flows on the long-lived assets of the Hotel RL Olympia as of December 31, 2020, noting they did not recover the carrying value of the long-lived asset group. After calculating the fair value of the property's asset group, we recognized an impairment loss of \$3.2 million in the fourth quarter of 2020. The fair value was determined based on the contractual selling price less expected costs to sell, which is a Level 3 fair value measurement. The impairment loss was allocated within the long-lived asset group on a pro rata basis, with the \$3.2 million applied against the hotel land and building, included within *Property and equipment, net* on the Consolidated Balance Sheets. There were no other impairments of our long-lived assets in 2020.

During 2019, we entered into individual non-binding sales agreements with third parties for four of our company operated hotels. Due to the potential for disposition within 12 months, we performed a test for recoverability using probability-weighted undiscounted cash flows on each of these four properties, noting only our Hotel RL Washington DC joint venture property did not recover the carrying value of the long-lived asset group. After calculating the fair value of the Hotel RL Washington DC joint venture property long-lived asset group, we recognized an impairment loss of \$5.4 million. The fair value was determined based on the contractual selling price less expected costs to sell, which is a Level 3 fair value measurement. The impairment loss was allocated to the assets within the long-lived asset group on a pro rata basis, with \$3.4 million applied against the hotel building, included within *Property and equipment, net* and \$2.0 million applied against the *Operating lease right-of-use asset* on the Consolidated Balance Sheets. There were no impairments at the other three properties.

During each of the years ended December 31, 2020 and 2019, we sold two hotel properties, for total gains of \$7.9 million and \$7.3 million, respectively. See further discussion of these dispositions at Note 16, *Dispositions*.

Depreciation expense for property and equipment was \$6.6 million and \$11.0 million for the years ended December 31, 2020 and 2019, respectively.

## **6. Goodwill and Intangible Assets**

### *2020 Impairment*

During the fourth quarter of 2020, as part of our annual impairment testing of indefinite lived intangible assets, we identified an impairment of \$8.0 million on our Americas Best Value Inn indefinite lived brand name, an impairment of \$1.9 million on our Knights Inn indefinite lived brand name, and an impairment of \$0.3 million on our Canadas Best Value Inn indefinite lived brand name, all within our franchised hotel segment. The impairment losses recognized on these brands resulted primarily from deterioration in the overall economy due to the impact of COVID-19, which significantly impacted unobservable inputs, such as the discount rate and terminal cap rate, used in our discounted cash flow analysis. These brand name assets continue to be classified as indefinite lived intangible assets as we are committed to the support and growth of these brands as part of our long term business strategy. The impairment losses are included in the *Asset Impairment* caption in the Consolidated Statements of Comprehensive Loss. No further impairments were identified in the annual impairment testing of our goodwill and other indefinite lived intangible assets.

The inputs used to measure the fair values of the Americas Best Value Inn, Knights Inn and Canadas Best Value Inn brand names were largely unobservable, and accordingly, these measures are classified as Level 3. The fair values of the brand names were estimated based on the relief from royalty method, which models the cash flows from the brand intangibles assuming royalties were received under a licensing arrangement. This discounted cash flow analysis uses inputs such as forecasted future revenues attributable to the brand, assumed royalty rates, a risk-adjusted discount rate that approximates the estimated cost of capital, and a terminal cap rate. The unobservable inputs used in this valuation included projected revenue growth rates, royalty rates, discount rate, and the terminal cap rate. The Company used a discount rate of 14.5% and a terminal cap rate of 11.5%.

### *2019 Impairment*

During the fourth quarter of 2019, as part of our annual impairment testing of indefinite lived intangible assets, we identified an impairment of \$7.4 million on our Americas Best Value Inn indefinite lived brand name and an impairment of \$1.3 million on our Knights Inn indefinite lived brand name, both within our franchised hotels segment. Both brands have experienced lower growth and higher terminations than previously expected. These brand name assets continue to be classified as indefinite lived intangible assets as we are committed to the support and growth of these brands as part of our long term business strategy. The impairment losses are included in the *Asset Impairment* caption in the Consolidated Statements of Comprehensive Loss. No further impairments were identified in the annual impairment testing of our goodwill and other indefinite lived intangible assets.

The inputs used to measure the fair values of the Americas Best Value Inn and Knights Inn brand names were largely unobservable, and accordingly, these measures are classified as Level 3. The fair values of the brand names were estimated based on the relief from royalty method, which models the cash flows from the brand intangibles assuming royalties were received under a licensing arrangement. This discounted cash flow analysis uses inputs such as forecasted future revenues attributable to the brand, assumed royalty rates, a risk-adjusted discount rate that approximates the estimated cost of capital, and a terminal cap rate. The unobservable inputs used in this valuation included projected revenue growth rates, royalty rates, discount rate, and the terminal cap rate. The Company used a discount rate of 11% and a terminal cap rate of 8%.

The following table summarizes the balances of goodwill and other intangible assets (in thousands):

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Goodwill	\$ 18,595	\$ 18,595
<b>Intangible assets</b>		
Brand name - indefinite lived	\$ 22,279	\$ 32,532
Trademarks - indefinite lived	128	128
Brand name - finite lived, net	2,841	3,554
Customer contracts - finite lived, net	10,055	12,398
Total intangible assets	<u>\$ 35,303</u>	<u>\$ 48,612</u>

All goodwill and other intangible assets were attributable to our franchise segment as of December 31, 2020 and 2019.

The following table summarizes the balances of amortized customer contracts and finite-lived brand names (in thousands):

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Customer contracts <sup>(1)</sup>	\$ 20,773	\$ 20,773
Brand name - finite lived <sup>(2)</sup>	5,395	5,395
Accumulated amortization	(13,272)	(10,216)
Net carrying amount	<u>\$ 12,896</u>	<u>\$ 15,952</u>

<sup>(1)</sup> Customer contracts are being amortized on a straight-line basis over useful remaining lives ranging from 4.3 years to 13.0 years, with a weighted average remaining life of 11.3 years.

<sup>(2)</sup> Brand name - finite lived are being amortized on a straight-line basis over useful remaining lives ranging from 4.3 years to 5.8 years, with a weighted average remaining life of 5.1 years.

Amortization of our finite lived intangible assets was \$3.1 million and \$3.6 million for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020, estimated future amortization expenses related to customer contracts and finite-lived brand names is as follows (in thousands):

<b>Years Ending December 31,</b>	<b>Amount</b>
2021	\$ 2,643
2022	2,306
2023	2,008
2024	1,721
2025	1,188
Thereafter	3,030
Total	<u>\$ 12,896</u>

## 7. Revenue from Contracts with Customers

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers (in thousands):

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Accounts receivable	\$ 7,310	\$ 15,143
Key money	2,389	2,228
Capitalized contract costs	482	941
Contract liabilities	910	1,448

Significant changes in the key money disbursements, capitalized contract costs, and contract liabilities balances during the period are as follows (in thousands):

	<b>Key Money</b>	<b>Capitalized Contract Costs</b>	<b>Contract Liabilities</b>
Balance as of January 1, 2020	\$ 2,228	\$ 941	\$ 1,448
Key money cash disbursements	560	—	—
Key money converted from accounts receivable	708	—	—
Key money converted to notes receivable	(639)	—	—
Costs incurred to acquire contracts	—	54	—
Cash received in advance	—	—	255
Revenue or expense recognized that was included in the January 1, 2020 balance	(313)	(553)	(748)
Revenue or expense recognized in the period for the period	(155)	40	(45)
Balance as of December 31, 2020	<u>\$ 2,389</u>	<u>\$ 482</u>	<u>\$ 910</u>

Estimated revenues and expenses expected to be recognized related to performance obligations that were unsatisfied as of December 31, 2020, including revenues related to application, initiation and other fees are as follows (in thousands):

<b>Years Ending December 31,</b>	<b>Contra Revenue</b>	<b>Expense</b>	<b>Revenue</b>
2021	\$ 525	\$ 156	\$ 338
2022	402	135	262
2023	349	92	157
2024	275	58	91
2025	196	23	36
Thereafter	642	18	26
Total	<u>\$ 2,389</u>	<u>\$ 482</u>	<u>\$ 910</u>

We did not estimate revenues expected to be recognized related to our unsatisfied performance obligations for our royalty fees, as they are considered sales-based royalty fees recognized as hotel room sales occur in exchange for licenses of our brand names over the terms of the franchise contracts. Therefore, there are no amounts included in the table above related to these revenues.

#### *Inner Circle*

In July 2019, the parent entities for eight Inner Circle franchisees and the operating entities for two other Inner Circle franchisees all filed for voluntary bankruptcy protection under Chapter 11 of the United States Bankruptcy Code.

Of the \$7.1 million in accounts receivable and notes receivable balances related to these franchisees, including unamortized key money converted to notes receivable upon termination of contracts, we recognized bad debt expense and an allowance of \$0.8 million in 2019 and bad debt expense and an allowance for the remaining \$6.3 million in the first quarter of 2020 when the reduction in fair value of collateral combined with timing of bankruptcy proceedings made it apparent the balances were highly unlikely to be recoverable. These balances were written off in the fourth quarter of 2020 when it was confirmed no proceeds would be received from the bankruptcy proceedings.

#### *Other Allowances*

We recognized additional bad debt expense of \$4.9 million in the year ended December 31, 2020, primarily related to large balances under legal dispute and aged balances from terminated agreements that were negatively impacted by the economic effects of the COVID-19 pandemic, along with terminated franchise agreements.

## 8. Debt and Line of Credit

The current and noncurrent portions of long-term debt as of December 31, 2020 and 2019 are as follows (in thousands):

	December 31,			
	2020		2019	
	Current	Noncurrent	Current	Noncurrent
Line of Credit	\$ —	\$ —	\$ —	\$ 10,000
RL Venture - Olympia	5,600	—	—	5,600
RLH DC Venture	—	—	17,648	—
Total debt	5,600	—	17,648	15,600
Unamortized debt issuance costs	(6)	—	(664)	(24)
Long-term debt net of debt issuance costs	<u>\$ 5,594</u>	<u>\$ —</u>	<u>\$ 16,984</u>	<u>\$ 15,576</u>

The collateral for each of the borrowings within the joint venture entities is the assets and proceeds of each respective entity.

### *RL Venture - Olympia*

In March 2019, RL Olympia, LLC, a subsidiary of RL Venture, executed a secured debt agreement with Umpqua Bank for a term loan with a principal balance of \$5.6 million. The loan is secured by the Hotel RL Olympia property, on a nonrecourse basis. The loan has a maturity date of March 18, 2021 and a variable interest rate of LIBOR plus 2.25%, payable monthly. There are no principal payment requirements prior to the maturity date and the loan includes a financial covenant to be calculated semi-annually in which the property must maintain a minimum debt service coverage ratio of not less than 1.6 to 1.0. We incurred approximately \$33,000 of debt discounts and debt issuance costs in connection with the issuance of the loan.

In February 2021, the Hotel RL Olympia property was sold and the \$5.6 million principal balance of the loan was paid in full.

### *Senior Secured Term Loan and Line of Credit*

In May 2018, RLH Corporation and certain of its direct and indirect wholly-owned subsidiaries entered into a credit agreement with Deutsche Bank AG New York Branch (DB), Capital One, National Association and Raymond James Bank, N.A., as lenders and DB as the administrative agent (DB Credit Agreement). The DB Credit Agreement provided for a \$30.0 million senior secured term loan facility (Senior Secured Term Loan) and a \$10.0 million senior secured revolving credit facility (Line of Credit).

In 2018, we made a prepayment on the balance outstanding under the Senior Secured Term Loan of \$20.6 million. In March 2019, we transferred approximately \$4.2 million, which comprises a portion of the net proceeds received from the RL Venture Loans (described below), as calculated and required by the provisions of the Senior Secured Term Loan, into the cash collateral account controlled by the lender. This balance was applied against the outstanding principal balance in April 2019. In September 2019, we made a voluntary prepayment on the Senior Secured Term Loan of \$1.0 million. In the fourth quarter of 2019, using the net proceeds from the sales of our Hotel RL Salt Lake City joint venture property and Red Lion Hotel Atlanta International Airport joint venture property, we repaid the remaining outstanding principal balance of \$4.2 million. Due to the early repayments and extinguishment of this debt, we recognized a *Loss on early retirement of debt* of \$0.2 million during 2019.

In August 2018, we also drew the full \$10.0 million available to us on the Line of Credit. In February 2020, we sold our leasehold interest in the Red Lion Anaheim for \$21.5 million. Using proceeds from the sale, we repaid the outstanding Line of Credit balance of \$10.0 million. This debt is no longer outstanding as of December 31, 2020 and as the credit agreement has been terminated we no longer have access to this Line of Credit. Due to the early extinguishment of this debt, we recognized a *Loss on early retirement of debt* of \$0.2 million in the first quarter of 2020.

### *RLH DC*

In October 2015, RLH DC obtained a mortgage loan from Pacific Western Bank secured by the Hotel RL Washington DC. The initial principal amount of the loan was \$15.2 million, and the lender agreed to advance an additional \$2.3 million to cover expenses related to improvements to the hotel, of which we drew \$1.5 million during the year ended December 31, 2016.



In May 2019, RLH DC executed a new mortgage loan agreement with CP Business Finance I, LP ("RLH DC Venture - CPBF"), secured by the Hotel RL Washington DC and a \$10.5 million principal guarantee by RLH Corporation. The initial principal amount of the loan was \$16.5 million. The proceeds from the loan were immediately used to pay off the existing mortgage loan on the property held by Pacific Western Bank, which had an outstanding principal balance of \$15.9 million at the time of closing.

The RLH DC Venture - CPBF loan had an initial maturity date of June 21, 2019, with a first extension option through May 31, 2020 that was exercised in June 2019, and a second extension option through May 31, 2021. There was a fee of \$330,000 to exercise the first extension option. The RLH DC Venture - CPBF had a cash interest rate of 7.0% in addition to PIK interest of 3.0% through May 31, 2020.

The RLH DC Venture - CPBF loan contained an exit fee equal to 5.0% of the outstanding principal balance if the loan was paid off prior to May 31, 2020. Additionally, if the loan was paid down prior to May 31, 2020, a prepayment premium had to be paid. The prepayment premium was equal to the remaining cash and PIK interest that would have been payable from the prepayment date through May 31, 2020.

As the exit fee was payable regardless of loan repayment prior to or at maturity, we had accrued the projected exit fee of \$851,000 as part of the outstanding debt balance with an offsetting debt discount. Inclusive of the accrued exit fee, we had incurred cumulative debt discounts and debt issuance costs of \$1.4 million, which were to be amortized to interest expense through the first extended maturity date of May 31, 2020.

In February 2020, we sold the Hotel RL Washington DC for \$16.4 million. Using proceeds from the sale, together with the release of \$2.3 million in a loan reserve held by the lender, CP Business Finance I, LP, RLH DC repaid the remaining outstanding principal balance and accrued exit fee under the RLH DC Venture - CPBF loan agreement of \$17.7 million. This debt is no longer outstanding as of December 31, 2020. Due to the early extinguishment of this debt, in the first quarter of 2020, we recognized a *Loss on early retirement of debt* of \$1.1 million, including a prepayment penalty of \$0.6 million.

#### *Paycheck Protection Program ("PPP") Loan*

On April 21, 2020, RLHC received \$4.2 million in loan proceeds issued pursuant to the PPP of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). In accordance with the CARES Act, RLHC planned to use proceeds from the Loan primarily for payroll costs, rent, and utilities as we concluded we met the certification criteria under the initial requirements of the PPP. However, on April 24, 2020, the U.S. government published additional guidance regarding PPP eligibility. As a result of this new guidance, we determined it was no longer clear that we met the eligibility requirements and accordingly repaid the full amount of the loan in May.

#### *RL Venture - Salt Lake City*

In March 2019, RL Salt Lake, LLC, a subsidiary of RL Venture, executed a secured debt agreement with Umpqua Bank for a term loan with a principal balance of \$11.0 million. The loan was fully secured by the Hotel RL Salt Lake City property. The loan had a maturity date of March 18, 2021 and a variable interest rate of LIBOR plus 2.25%, payable monthly. The borrower had the option to exercise two six-month extensions upon maturity of the loan. There were no principal payment requirements prior to the maturity date and the loan included a financial covenant to be calculated semi-annually in which the property must maintain a minimum debt service coverage ratio of not less than 1.6 to 1.0. We incurred approximately \$54,000 of debt discounts and debt issuance costs in connection with the issuance of the loan. In December 2019, we sold the Hotel RL Salt Lake City joint venture property for \$33.0 million. Using the proceeds from the sale, RL Venture repaid the \$11.0 million outstanding principal balance under the loan agreement. Due to the early extinguishment of this debt, we recognized a *Loss on early retirement of debt* of \$0.1 million in 2019.

#### *RLH Atla Venture*

In September 2015, RLH Atlanta obtained a mortgage loan from PFP Holding Company IV LLC ("PFP"), an affiliate of Prime Finance, secured by a hotel adjacent to the Atlanta International Airport, which opened in April 2016 as the Red Lion Hotel Atlanta International Airport. The initial principal amount of the loan was \$6.0 million, and the lender agreed to advance an additional \$3.4 million to cover expenses related to improvements to the hotel, which we drew during the first quarter of 2016. In September 2019, RLH Atlanta executed an amendment to the existing mortgage loan with PFP which extended the maturity date from September 9, 2019 to November 9, 2019. In connection with the amendment, we paid \$1.0 million of principal balance and incurred approximately \$81,000 of debt discounts and debt issuance costs. As the amendment represented a modification to the original debt, these costs were amortized to interest expense through the extended maturity date of

November 9, 2019. On November 7, 2019, RLH Atlanta executed an additional amendment, which extended the maturity date from November 9, 2019 to January 9, 2020. In connection with the amendment, we paid \$0.5 million of principal balance and incurred approximately \$40,000 of debt discounts and debt issuance costs. In November 2019, we sold the Red Lion Hotel Atlanta International Airport for \$12.3 million. Using the proceeds from the sale, RLH Atlanta repaid the \$8.2 million outstanding principal balance under the loan agreement with PFB.

Contractual maturities for long-term debt outstanding at December 31, 2020, for the next five years, are summarized by the year as follows (in thousands):

Years Ending December 31,	Amount
2021	\$ 5,600
2022	—
2023	—
2024	—
2025	—
Thereafter	—
Total	<u>\$ 5,600</u>

## 9. Operating and Finance Lease Commitments

We lease equipment and land and/or property at certain company operated hotel properties as well as office space for our headquarters through operating leases. The operating leases for office space generally provide for fixed annual rents and variable lease costs related to maintenance, real estate taxes and insurance.

We are obligated under finance leases for certain hotel equipment at our company operated hotel locations. The finance leases typically have a five year term.

We have elected the practical expedient so that leases with an initial term of 12 months or less are not recorded on the balance sheet.

During the first quarter of 2020, we sold the Hotel RL Washington DC joint venture property, which had a ground lease with a term through 2080. As of December 31, 2019, we had recorded an *Operating lease right-of-use asset* of \$10.8 million, and total operating lease liabilities of \$12.9 million for this ground lease. The ground lease was transferred with the sale of the property, resulting in the removal of these balances from the Consolidated Balance Sheets.

Also in the first quarter of 2020, we sold our leasehold interest in the Red Lion Anaheim, which had a ground lease with a term through 2021 with renewal options through 2106 that were reasonably assured to be exercised. As of December 31, 2019, we had recorded an *Operating lease right-of-use asset* of \$31.4 million, with corresponding operating lease liabilities of \$31.4 million for this ground lease. The ground lease was transferred with the sale of the property, resulting in the removal of these balances from the Consolidated Balance Sheets.

Balance sheet information related to our leases is included in the following table (in thousands):

Operating Leases	December 31, 2020	December 31, 2019
Operating lease right-of-use assets	<u>\$ 4,723</u>	<u>\$ 48,283</u>
Operating lease liabilities, due within one year	\$ 1,559	\$ 4,809
Operating lease liabilities, due after one year	4,479	46,592
Total operating lease liabilities	<u>\$ 6,038</u>	<u>\$ 51,401</u>

<b>Finance Leases</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Property and equipment	\$ 88	\$ 298
Less accumulated depreciation	(81)	(168)
Property and equipment, net	<u>\$ 7</u>	<u>\$ 130</u>
Other accrued liabilities	\$ 14	\$ 74
Deferred income and other long-term liabilities	—	76
Total finance lease liabilities	<u>\$ 14</u>	<u>\$ 150</u>

The components of lease expense during the years ended December 31, 2020 and 2019 are included in the following tables (in thousands):

	<b>Financial Statement Line Item(s)</b>	<b>Year Ended December 31, 2020</b>	<b>Year Ended December 31, 2019</b>
Operating lease expense	Selling, general, administrative and other expenses, and Company operated hotels	\$ 1,665	\$ 4,639
Variable lease expense	Selling, general, administrative and other expenses	560	451
Short-term lease expense	Selling, general, administrative and other expenses, and Company operated hotels	110	342
Sublease income	Selling, general, administrative and other expenses	(348)	—
<b>Finance lease expense</b>			
Amortization of finance right-of-use assets	Depreciation and amortization	24	135
Interest on lease liabilities	Interest expense	4	29
Total finance lease expense		<u>28</u>	<u>164</u>
Total lease expense		<u>\$ 2,015</u>	<u>\$ 5,596</u>

Supplemental cash flow information for our leases is included in the following table (in thousands):

<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	<b>Year Ended December 31, 2020</b>	<b>Year Ended December 31, 2019</b>
Cash used in operating activities for operating leases	\$ 1,920	\$ 4,744
Cash used in operating activities for finance leases	4	29
Cash used in financing activities for finance leases	32	137

There were no new finance lease assets or associated liabilities during the years ended December 31, 2020 and 2019. There were no new operating lease assets or associated liabilities during the year ended December 31, 2020.

Information related to the weighted average remaining lease terms and discount rates for our leases as of December 31, 2020 and 2019 is included in the following table:

	December 31, 2020	December 31, 2019
<b>Weighted average remaining lease term (in years)</b>		
Operating leases	5	69
Finance leases	1	3
<b>Weighted average discount rate</b>		
Operating leases	5.8 %	7.2 %
Finance leases	5.7 %	11.9 %

The future maturities of lease liabilities at December 31, 2020 are as indicated below (in thousands):

Years Ending December 31,	Operating Leases	Finance Leases
2021	\$ 1,559	\$ 14
2022	1,486	—
2023	1,449	—
2024	595	—
2025	581	—
Thereafter	1,403	—
<b>Total lease payments</b>	<b>7,073</b>	<b>14</b>
Less: imputed interest	1,035	—
<b>Total liability</b>	<b>\$ 6,038</b>	<b>\$ 14</b>

## 10. Commitments and Contingencies

On September 26, 2018, Radisson Hotels International, Inc. filed a complaint against RLH Corporation and our subsidiary Red Lion Hotels Franchising, Inc. in the U.S. District Court for the Eastern District of Washington. The complaint alleges tortious interference with agreements between Radisson and several franchisees controlled by Inner Circle Investments and seeks damages in an undetermined amount. Mediation held in August 2020 resulted in an impasse and parties are now engaged in discovery. RLH Corporation believes this complaint is without merit and we are defending it vigorously.

On October 31, 2018, the Company's lease for the Red Lion River Inn expired. The landlord filed a lawsuit against the Company on January 24, 2019 in Spokane Superior Court, alleging breach of the lease agreement and tort claims relating to the condition of the hotel. The Company filed its Answer on January 25, 2019, denying all allegations and asserting various affirmative defenses. RLH Corporation believes this complaint is without merit and we are defending it vigorously.

During the second quarter of 2019, we accrued approximately \$952,000 for a settlement over a wage dispute with former hotel employees related to the calculation of pay for certain rest, break, meal, and other periods that are required under California law. The payment for this settlement was made in January 2021.

Along with many of its competitors, the Company has been named as a defendant in lawsuits filed in various state and federal courts, alleging statutory and common law claims related to purported incidents of human trafficking at certain franchised hotel facilities. As of March 17, 2021, the Company was involved (as a named defendant) in four separate human trafficking lawsuits. The Company is in various stages of seeking dismissal on the basis that the Company did not own, operate or manage the hotels at issue, and intends to vigorously defend the lawsuits.

As a result of downsizing (both prior to COVID-19 and as a result of COVID-19), the Company eliminated a number of positions and laid-off a number of employees in the fourth quarter of 2019 and the first two quarters of 2020. A small number of former employees have disputed the basis for their layoffs. To date, the Company has entered into two settlements with former employees, neither of which were material to the Company.

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

## 11. Stock Based Compensation

### *Stock Incentive Plans*

The 2015 Stock Incentive Plan (2015 Plan) authorizes the grant or issuance of various option and other awards including restricted stock units and other stock-based compensation. The 2015 Plan was approved by our shareholders in 2015, and amended in 2017, and as amended provides for awards of 2.9 million shares. As of December 31, 2020, there were 1.3 million shares of common stock available for issuance pursuant to future stock option grants or other awards under the 2015 Plan.

Stock based compensation expense reflects the fair value of stock based awards measured at grant date, including an estimated forfeiture rate, and is recognized over the relevant service period. For the years ended December 31, 2020 and 2019, stock-based compensation expense is as follows:

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
	(In thousands)	
Stock options	\$ —	\$ 21
Restricted stock units	159	1,625
Performance stock units	15	(470)
Unrestricted stock awards	403	564
Employee stock purchase plan	28	40
Total stock-based compensation	<u>\$ 605</u>	<u>\$ 1,780</u>

### *Stock Options*

Stock options issued are valued based upon the Black-Scholes option pricing model and we recognize this value as an expense over the periods in which the options vest. Use of the Black-Scholes option-pricing model requires that we make certain assumptions, including expected volatility, forfeiture rate, risk-free interest rate, expected dividend yield and expected life of the options, based on historical experience. Volatility is based on historical information with terms consistent with the expected life of the option. The risk free interest rate is based on the quoted daily treasury yield curve rate at the time of grant, with terms consistent with the expected life of the option. There were no stock options granted in 2020 or 2019.

A summary of stock option activity for the year ended December 31, 2020, is as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Balance, January 1, 2020	60,848	\$ 8.20
Options forfeited	(60,848)	\$ 8.20
Balance, December 31, 2020	<u>—</u>	<u>\$ —</u>
Exercisable, December 31, 2020	<u>—</u>	<u>\$ —</u>

### *Restricted Stock Units, Shares Issued as Compensation*

During 2020 and 2019, we granted 235,251 and 361,360 unvested restricted stock units, respectively, to executive officers and other key employees, which typically vest 25% each year for four years on each anniversary of the grant date. While all of the shares are considered granted, they are not considered issued or outstanding until vested. As of December 31, 2020 and 2019, there were 233,751 and 459,070 unvested restricted stock units outstanding, respectively.

A summary of restricted stock unit activity for the year ended December 31, 2020, is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2020	459,070	\$ 9.03
Granted	235,251	\$ 1.79
Vested	(123,295)	\$ 8.54
Forfeited	(337,275)	\$ 7.32
Balance, December 31, 2020	<u>233,751</u>	<u>\$ 4.47</u>

We issued 123,295 shares of common stock to employees in 2020 as their restricted stock units vested. Under the terms of the 2006 and 2015 plans and upon issuance, we authorized a net settlement of distributable shares to employees after consideration of individual employees' tax withholding obligations, at the election of each employee. The fair value of restricted stock that vested during 2020 and 2019 was approximately \$0.2 million and \$5.9 million, respectively.

During 2020 and 2019, we recognized approximately \$0.2 million, and \$1.6 million, respectively, in compensation expense related to these grants, and expect to recognize an additional \$0.7 million in compensation expense over the remaining weighted average vesting periods of approximately 19 months.

#### *Performance Stock Units, Shares Issued as Compensation*

During 2020 and 2019, we granted 0 and 218,437 performance stock units (PSUs), respectively, to certain of our executives. These PSUs include both performance vesting conditions and a service vesting condition. The performance vesting conditions are based on an annual earnings goal tied to Adjusted EBITDA. Each performance condition has a minimum, a target and a maximum share amount based on the level of attainment of the performance condition with payouts of 25% to 50% at the minimum, 100% at the target, and 160% at the maximum. The service period for each grant is three years. Compensation expense, net of estimated forfeitures, is calculated based on the estimated attainment of the performance conditions during the performance period and recognized on a straight-line basis over the performance and service periods. Based on these assumptions, PSU compensation expense (recovery) recognized for the years ended December 31, 2020 and 2019 was \$15,000 and \$(0.5) million, respectively.

During the year ended December 31, 2020, 25,796 PSUs vested at a weighted average grant date fair value of \$6.45. The fair value of PSUs that vested during the year ended December 31, 2020 was approximately \$38,000. No PSUs vested during the year ended December 31, 2019. There are no PSUs outstanding and no remaining compensation expense related to PSUs expected to be recognized as of December 31, 2020.

#### *Unrestricted Stock Awards*

Unrestricted stock awards are granted to members of our Board of Directors as part of their compensation. Awards are fully vested and expense is recognized when granted. The fair value of unrestricted stock awards is the market close price of our common stock on the date of the grant. During 2020 and 2019, we recognized approximately \$0.4 million and \$0.6 million, respectively, in compensation expense related to these grants.

The following table summarizes unrestricted stock award activity for the years ended December 31:

	2020	2019
Shares of unrestricted stock granted	179,551	76,224
Weighted average grant date fair value per share	\$ 2.24	\$ 7.41

#### *Employee Stock Purchase Plan*

The employee stock purchase plan (ESPP) was approved in 2008, and amended in 2017, and as amended authorizes 600,000 shares for purchase by eligible employees under the ESPP. The ESPP was suspended upon the announcement of the Merger Agreement and is to be terminated upon closing of the Merger. All outstanding employee contributions for the second half of 2020 were refunded.

If the ESPP was reinstated, 249,905 shares would remain available for grant. Prior to suspension of the ESPP, eligible employees could purchase shares of our common stock at a 15% discount through payroll deductions. No employee could purchase more than \$25,000 worth of shares, or more than 10,000 total shares, in any calendar year. As allowed under the ESPP, a participant could elect to withdraw from the plan, effective for the purchase period in progress at the time of the election with all accumulated payroll deductions returned to the participant at the time of withdrawal. During 2020 and 2019, there were 32,834 and 34,990 shares, respectively, issued, and approximately \$28,000 and \$40,000 was recognized in compensation expense related to the discount associated with the plan in each year, respectively.

	2020	2019
Shares of stock sold to employees	32,834	34,990
Weighted average fair value per ESPP award	\$ 2.52	\$ 6.46

### *Warrants*

In January 2015, in connection with Shelbourne Falcon's purchase of equity interests in RL Venture, we issued Shelbourne warrants to purchase 442,533 shares of common stock. The warrants had a five-year term from the date of issuance and a per share exercise price of \$6.78. The warrants were classified as equity due to required share settlement upon exercise. Accordingly, the estimated fair value of the warrants was recognized in additional paid in capital upon issuance, and we did not recognize subsequent changes in fair value in our financial statements. All warrants expired without being exercised in January 2020.

## **12. Earnings (Loss) Per Share**

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted net income (loss) per share computations for the years ended December 31, 2020 and 2019 (in thousands, except per share amounts):

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Numerator - basic and diluted:</b>		
Net loss	\$ (34,364)	\$ (20,973)
Net loss attributable to noncontrolling interest	3,189	1,944
Net loss attributable to RLH Corporation	(31,175)	(19,029)
<b>Denominator:</b>		
Weighted average shares - basic	25,349	24,931
Weighted average shares - diluted	25,349	24,931
Earnings (loss) per share - basic	\$ (1.23)	\$ (0.76)
Earnings (loss) per share - diluted	\$ (1.23)	\$ (0.76)

The following table presents options to purchase common shares, restricted stock units outstanding, performance stock units outstanding and warrants to purchase common shares included in the earnings per share calculation, as well as the amount excluded from the dilutive earnings per share calculation if they were considered antidilutive, for the years ended December 31, 2020 and 2019. No options to purchase common shares, restricted stock units outstanding, performance stock units outstanding or warrants to purchase common shares were considered dilutive for the periods presented due to the net losses attributable to RLH Corporation.

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Stock Options <sup>(1)</sup></b>		
Antidilutive awards outstanding	—	60,848
Total awards outstanding	—	60,848
<b>Restricted Stock Units <sup>(2)</sup></b>		
Antidilutive awards outstanding	233,751	459,070
Total awards outstanding	233,751	459,070
<b>Performance Stock Units <sup>(3)</sup></b>		
Antidilutive awards outstanding	—	25,796
Total awards outstanding	—	25,796
<b>Warrants <sup>(4)</sup></b>		
Antidilutive awards outstanding	—	442,533
Total awards outstanding	—	442,533

<sup>(1)</sup> All stock options for the years ended December 31, 2020 and 2019 were anti-dilutive as a result of the RLH Corporation weighted average share price during the reporting period, in addition to the net losses in 2020 and 2019.

<sup>(2)</sup> Restricted stock units were anti-dilutive for the years ended December 31, 2020 and 2019 due to the net losses attributable to RLH Corporation in the reporting period. If we had reported net income for the years ended December 31, 2020 and 2019 then 19,631 and 254,574 weighted average restricted stock units, respectively, would have been dilutive.

<sup>(3)</sup> Performance stock units are not included in the weighted average diluted shares outstanding until the performance targets are met. PSUs were anti-dilutive for the year ended December 31, 2020 due to the net loss attributable to RLH Corporation in the reporting period. If we had reported net income for the year ended December 31, 2020, then 2,545 units would have been dilutive. Certain performance stock unit grants were antidilutive for the year ended December 31, 2019 as their respective targets had not been achieved as of the end of the year, in addition to the net loss in 2019. If we had reported net income and the performance targets been met for the year ended December 31, 2019, then 81,613 weighted average performance stock units would have been dilutive.

<sup>(4)</sup> All warrants expired without being exercised in January 2020. For the year ended December 31, 2019 all warrants were anti-dilutive due to the net loss attributable to RLH Corporation in the reporting period. If we had reported net income for the year ended December 31, 2019 then 35,873 warrants would have been dilutive.

### 13. Income Taxes

Major components of the income tax expense for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Current:</b>		
Federal expense (benefit)	\$ (699)	\$ 30
State expense (benefit)	(105)	163
Foreign expense (benefit)	41	89
Deferred expense (benefit)	(337)	(29)
Income tax expense (benefit)	<u>\$ (1,100)</u>	<u>\$ 253</u>



The differences from continuing operations between income taxes expected at the U.S. federal statutory income tax rate of 21% and the reported income tax (benefit) expense are summarized as follows (in thousands, except percentages):

	Years Ended December 31,			
	2020		2019	
	Amount	%	Amount	%
(Benefit) expense provision at federal statutory rate	\$ (7,447)	21.0%	\$ (4,351)	21.0%
State/foreign tax (benefit) expense	(1,438)	4.1%	(325)	1.6%
Effect of tax credits	20	-0.1%	5	—%
Non-controlling interest	670	-1.9%	408	-2.0%
Other	(230)	0.6%	713	-3.4%
Valuation allowance	7,325	-20.6%	3,803	-18.4%
Income tax expense (benefit) from continuing operations	<u>\$ (1,100)</u>	<u>3.1%</u>	<u>\$ 253</u>	<u>-1.2%</u>

Significant components of the net deferred tax assets and liabilities from continuing operations at December 31, 2020 and 2019, are as follows (in thousands):

	December 31,			
	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Property and equipment	\$ 1,508	\$ —	\$ 1,946	\$ —
Brand name	—	129	—	2,336
Goodwill	1,889	—	2,345	—
Prepaid assets	—	502	—	1,082
Allowance for doubtful accounts	2,259	—	1,345	—
RL Venture	174	—	957	—
Stock-based compensation	68	—	372	—
Tax credit carryforwards	5,121	—	2,691	—
Federal and state net operating losses	5,802	—	1,965	—
Leasing liabilities	1,531	—	9,758	—
Leasing assets	—	1,198	—	9,499
Other receivables	586	—	500	—
Other	2,509	—	2,993	—
Valuation allowance	(20,023)	—	(12,698)	—
Total	<u>\$ 1,424</u>	<u>\$ 1,829</u>	<u>\$ 12,174</u>	<u>\$ 12,917</u>

At December 31, 2020 and 2019, we had federal operating loss carryforwards of \$20.3 million and \$5.5 million, respectively. The federal operating loss carryforwards can be carried forward indefinitely, but are subject to annual deduction limitations under the *2017 Tax Cuts and Jobs Act*. At December 31, 2020 and 2019, we had state gross operating loss carryforwards of approximately \$29.8 million and \$13.3 million, respectively. We had federal and state tax credit carryforwards of approximately \$5.1 million and \$2.7 million at December 31, 2020 and 2019, respectively. The state net operating loss carryforwards will expire beginning in 2021; the tax credit carryforwards will begin to expire in 2024.

On March 27, 2020, President Trump signed into law the CARES Act, which generally allows for unlimited use of net operating losses generated in 2019 and 2020 as well as a five year carryback provision and shortening the recovery period for qualified improvement property. The income tax benefit recognized for the year ended December 31, 2020 is principally related to the provisions of the CARES Act.

We assess the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. As of December 31, 2020, the total valuation allowance of \$20.0 million was recorded to reduce deferred tax assets to an amount that is more likely than not to be realized. The amount of the deferred tax

asset considered realizable, however, could be adjusted if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as forecasted taxable income and our projections for growth. Should we determine we will be able to realize additional deferred tax assets, the tax benefits relating to any reversal of the valuation allowance will be accounted for as a reduction of income tax expense.

A summary of our valuation allowance activity as it relates to continuing operations for the years ended December 31 is as follows (in thousands):

	<b>Valuation Allowance</b>
Balances, December 31, 2018	\$ 8,895
Increase during period	3,803
Balances, December 31, 2019	12,698
Increase during period	7,325
Balances, December 31, 2020	<u>\$ 20,023</u>

We classify any interest expense and penalties related to tax positions and any interest income on tax overpayments as components of income tax expense.

We recognize the financial statement effect of a tax position when it is more likely than not to be sustained on the basis of its technical merits. We have no material uncertain tax positions at December 31, 2020 and 2019, and do not anticipate a significant change in any unrecognized tax benefits over the next twelve months. Accordingly, we have not provided for any unrecognized tax benefits or related interest and penalties. With limited exception, we are no longer subject to U.S. federal, state and local income tax examinations by taxing authorities for years prior to 2017. Additionally, the year 2012 is subject to examination, to the extent that net operating loss and income tax credit carryforwards from that year were utilized in 2014 and later years.

#### 14. Fair Value

Applicable accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We measure our assets and liabilities using inputs from the Level 1, Level 2 and Level 3 of the fair value hierarchy.

*Cash, Restricted Cash and Accounts Receivable* carrying values approximate fair value due to the short-term nature of these items.

We estimate the fair value of our notes receivable using expected future payments discounted at risk-adjusted rates, both of which are Level 3 inputs. We estimate the fair value of our long-term debt and finance lease obligations using expected future payments discounted at risk-adjusted rates, both of which are Level 3 inputs. The fair values provided below are not necessarily indicative of the amounts we or the debt holders could realize in a current market exchange. In addition, potential income tax ramifications related to the realization of gains and losses that would be incurred in an actual sale or settlement have not been taken into consideration. Estimated fair values of financial instruments (in thousands) are shown in the table below.

	<b>December 31,</b>			
	<b>2020</b>		<b>2019</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Financial assets:</b>				
Notes receivable	\$ 455	\$ 455	\$ 5,709	\$ 5,709
<b>Financial liabilities:</b>				
Total debt	\$ 5,600	\$ 5,455	\$ 33,248	\$ 32,737
Total finance lease obligations	14	14	150	150

#### 15. Related Party Transactions

During the fourth quarter of 2018, we transitioned management of our company operated Hotel RL Baltimore Inner Harbor and Hotel RL Washington DC from RL Management, Inc., to Merritt Hospitality, LLC ("Merritt"), an affiliate of HEI Hotels and Resorts, of which one of the members of our Board of Directors, Ted Darnall, is currently the Chief Executive Officer. Additionally, during the first quarter of 2019, management of our company operated hotel Red Lion Hotel Seattle Airport was also transitioned from RL Management, Inc. to Merritt. During the years ended December 31, 2020 and 2019, we paid \$0.6 million and \$1.1 million, respectively, in management fees to Merritt for management of these properties.

Additionally, as of December 31, 2020, five hotels managed by Merritt purchased services provided by us through our all-in-one cloud-based hospitality management suite, Canvas Integrated Systems, operated by our wholly owned subsidiary, RLabs, Inc. During the years ended December 31, 2020 and 2019, we recognized revenue of \$0.9 million and \$0.7 million, respectively, for services sold to these hotels. Amounts owed to RLHC by Merritt as of December 31, 2020 and 2019 were \$0.3 million and \$0.2 million, respectively.

As noted in Note 8 *Debt and Line of Credit*, on May 31, 2019, we executed a mortgage loan with a principal and accrued exit fee of \$17.4 million with CP Business Finance I, LP, an affiliate of Columbia Pacific Opportunity Fund, LP, which, to our knowledge, currently holds 500,000 shares of RLHC common stock. Alexander B. Washburn, who served as a member of our Board of Directors from May 2015 to April 2019, is one of the managing members of Columbia Pacific Advisor, LLC, which serves as the investment manager of Columbia Pacific Opportunity Fund, LP. This debt is no longer outstanding.

## 16. Dispositions

During the years ended December 31, 2020 and 2019, we continued the execution of a hotel asset sales initiative consistent with our previously stated business strategy to focus on moving towards operations as primarily a franchise company, and disposed of several hotels from our company operated hotels segment. During the first quarter of 2020, we disposed of two hotels from our company operated hotels segment, comprising net assets of \$30.2 million, for cash proceeds of \$37.9 million. These dispositions resulted in a combined gain of \$7.9 million. During the fourth quarter of 2019, we disposed of two additional hotels from our company operated hotels segment, comprising net assets of \$37.0 million, for cash proceeds of \$45.3 million. These dispositions resulted in a combined gain of \$7.3 million. The dispositions in 2020 and 2019 did not meet the criteria for discontinued operations.

The following summarizes the results of operations for the 4 properties sold during 2020 and 2019 (in thousands):

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Pre-tax income (loss)	\$ 6,032	\$ (2,437)
Net loss attributable to noncontrolling interest	1,139	1,511
Net income (loss) attributable to RLHC	<u>\$ 7,171</u>	<u>\$ (926)</u>

At December 31, 2020 and 2019, we had no properties meeting the criteria to be classified as held for sale on our Consolidated Balance Sheets.

## 17. Subsequent Events

The Company has evaluated subsequent events through March 22, 2021, which is the date these statements were available to be issued.

On March 16, 2021, RLHC's shareholders voted and approved the Merger Agreement with Sonesta. On March 17, 2021, the Merger closed and consideration of \$3.50 per share, RSU, and PSU was transferred from Sonesta to RLHC shareholders and RSU and PSU holders for a total transaction price of \$90.1 million. At closing, RLHC incurred additional transaction costs of approximately \$5.2 million associated with the successful closing of the Merger Agreement. RLHC has delisted from the NYSE and provided notice to eliminate public filing requirements.

There were no other significant subsequent events identified that required disclosures in these financial statements.

## **Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors  
Red Lion Hotels Corporation  
Denver, Colorado

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Red Lion Hotels Corporation (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income (loss), changes in stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 27, 2020 expressed an unqualified opinion thereon.

### **Change in Accounting Method Related to Leases**

As discussed in Notes 2 and 9 to the consolidated financial statements, the Company has changed its method of accounting for leases in 2019 due to the adoption of Accounting Standards Codification Topic 842, *Leases*.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2001.

Spokane, Washington  
February 27, 2020



**RED LION HOTELS CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**For the Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b> <b>(Revised)</b>
	(In thousands, except per share data)	
<b>Revenue:</b>		
Royalty	\$ 22,121	\$ 22,309
Marketing, reservations and reimbursables	31,375	28,239
Other franchise	5,749	3,246
Company operated hotels	55,029	82,021
Other	14	34
<b>Total revenues</b>	<b>114,288</b>	<b>135,849</b>
<b>Operating expenses:</b>		
Selling, general, administrative and other expenses	29,420	31,681
Company operated hotels	48,612	67,314
Marketing, reservations and reimbursables	29,292	27,937
Depreciation and amortization	14,567	17,003
Asset impairment	14,128	10,582
Gain on asset dispositions, net	(7,067)	(42,021)
Transaction and integration costs	632	2,219
<b>Total operating expenses</b>	<b>129,584</b>	<b>114,715</b>
<b>Operating income (loss)</b>	<b>(15,296)</b>	<b>21,134</b>
<b>Other income (expense):</b>		
Interest expense	(5,157)	(6,209)
Loss on early retirement of debt	(428)	(794)
Other income, net	161	265
<b>Total other income (expense)</b>	<b>(5,424)</b>	<b>(6,738)</b>
<b>Income (loss) before taxes</b>	<b>(20,720)</b>	<b>14,396</b>
Income tax expense (benefit)	253	(71)
<b>Net income (loss)</b>	<b>(20,973)</b>	<b>14,467</b>
Net (income) loss attributable to noncontrolling interest	1,944	(13,129)
<b>Net income (loss) and comprehensive income (loss) attributable to RLH Corporation</b>	<b>\$ (19,029)</b>	<b>\$ 1,338</b>
<b>Earnings (loss) per share - basic</b>	<b>\$ (0.76)</b>	<b>\$ 0.05</b>
<b>Earnings (loss) per share - diluted</b>	<b>\$ (0.76)</b>	<b>\$ 0.05</b>
<b>Weighted average shares - basic</b>	<b>24,931</b>	<b>24,392</b>
<b>Weighted average shares - diluted</b>	<b>24,931</b>	<b>25,477</b>

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

**RED LION HOTELS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the Years Ended December 31, 2019 and 2018**

Red Lion Hotels Corporation Stockholders' Equity

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit) (Revised)	RLH Corporation Total Equity (Revised)	Equity Attributable to Non-controlling Interest	Total Equity (Revised)
	Shares	Amount					
(In thousands, except share data)							
<b>Balances, December 31, 2017</b>	23,651,212	\$ 237	\$178,028	\$ (18,757)	\$ 159,508	\$ 27,381	\$186,889
Net income	—	—	—	1,338	1,338	13,129	14,467
Cumulative effect of the adoption of Topic 606	—	—	—	(427)	(427)	—	(427)
Shared based payment activity	228,946	2	3,535	—	3,537	—	3,537
Shares issued for Vantage continent consideration	690,000	7	2,870	—	2,877	—	2,877
Buyout of noncontrolling interest	—	—	(2,415)	—	(2,415)	2,111	(304)
Distributions to noncontrolling interests	—	—	—	—	—	(21,457)	(21,457)
<b>Balances, December 31, 2018</b>	24,570,158	246	182,018	(17,846)	164,418	21,164	185,582
Net loss	—	—	—	(19,029)	(19,029)	(1,944)	(20,973)
Shared based payment activity	577,847	5	(34)	—	(29)	—	(29)
Reclassification of noncontrolling interest upon conversion to wholly owned subsidiary	—	—	(376)	—	(376)	376	—
Distributions to noncontrolling interests	—	—	—	—	—	(17,559)	(17,559)
<b>Balances, December 31, 2019</b>	<u>25,148,005</u>	<u>\$ 251</u>	<u>\$181,608</u>	<u>\$ (36,875)</u>	<u>\$ 144,984</u>	<u>\$ 2,037</u>	<u>\$147,021</u>

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

**RED LION HOTELS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2019 and 2018**

	2019	2018 (Revised)
	(In thousands)	
<b>Operating activities:</b>		
Net income (loss)	\$ (20,973)	\$ 14,467
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,567	17,003
Noncash PIK interest and amortization of debt issuance costs	1,077	942
Amortization of key money and contract costs	1,166	748
Amortization of contract liabilities	(1,167)	(753)
Gain on asset dispositions, net	(7,067)	(42,021)
Noncash loss on early retirement of debt	276	794
Asset impairment	14,128	10,582
Deferred income taxes	(29)	(1,302)
Stock based compensation expense	1,780	3,955
Provision for doubtful accounts	3,935	1,014
Fair value adjustments to contingent consideration	—	581
Change in current assets and liabilities, net of business acquired:		
Accounts receivable	(89)	(3,644)
Key money disbursements	(857)	(5,695)
Other current assets	(248)	(1,231)
Accounts payable	380	1,249
Other accrued liabilities	(1,497)	(203)
Net cash provided by (used in) operating activities	<u>5,382</u>	<u>(3,514)</u>
<b>Investing activities:</b>		
Capital expenditures	(4,939)	(8,615)
Acquisition of Knights Inn	—	(27,249)
Net proceeds from disposition of property and equipment	44,137	113,748
Collection of notes receivable	283	62
Advances on notes receivable	(90)	(1,048)
Net cash provided by (used in) investing activities	<u>39,391</u>	<u>76,898</u>
<b>Financing activities:</b>		
Borrowings on long-term debt, net of discounts	32,935	30,000
Repayment of long-term debt and finance leases	(45,943)	(107,999)
Proceeds from line of credit borrowing	—	10,000
Debt issuance costs	(253)	(1,282)
Buyout of joint venture interest	—	(304)
Distributions to noncontrolling interest	(17,559)	(21,457)
Contingent consideration paid for Vantage Hospitality acquisition	—	(7,000)
Stock-based compensation awards canceled to settle employee tax withholding	(2,150)	(647)
Stock option and stock purchase plan issuances, net and other	216	236
Net cash provided by (used in) financing activities	<u>(32,754)</u>	<u>(98,453)</u>
<b>Change in cash, cash equivalents and restricted cash:</b>		
Net increase (decrease) in cash, cash equivalents and restricted cash	12,019	(25,069)
Cash, cash equivalents and restricted cash at beginning of year	19,789	44,858
Cash, cash equivalents and restricted cash at end of year	<u>\$ 31,808</u>	<u>\$ 19,789</u>



**RED LION HOTELS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)**  
**For the Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
(In thousands)		
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during years for:		
Income taxes	\$ 763	\$ 963
Interest on debt	\$ 4,938	\$ 6,338
Non-cash operating, investing and financing activities:		
Acquisition of property and equipment through capital lease and other LT obligations	\$ —	\$ 328
Property and equipment, purchases not yet paid	\$ 182	\$ 27
Shares issued for Vantage acquisition	\$ —	\$ 2,877

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

**RED LION HOTELS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization**

Red Lion Hotels Corporation ("RLH Corporation", "RLHC", "we", "our", "us", or "our company") is a NYSE-listed hospitality and leisure company (ticker symbol: RLH) doing business as RLH Corporation and primarily engaged in the franchising and ownership of hotels under the following proprietary brands: Hotel RL, Red Lion Hotels, Red Lion Inn & Suites, GuestHouse, Settle Inn, Americas Best Value Inn, Canadas Best Value Inn, Signature and Signature Inn, Knights Inn, and Country Hearth Inns & Suites.

In May 2018, Red Lion Hotels Franchising, Inc., a wholly-owned subsidiary of RLH Corporation (RLH Franchising) completed the purchase of all of the issued and outstanding shares of capital stock of Knights Franchise Systems, Inc. (KFS), and the purchase of certain operating assets from, and assumption of certain liabilities relating to the business of franchising Knights Inn branded hotels to hotel owners from Wyndham Hotel Group Canada, ULC and Wyndham Hotel Group Europe Limited, pursuant to an Amended and Restated Purchase Agreement, for an aggregate purchase price of \$27.2 million. See Note 16, *Acquisitions and Dispositions* for further discussion.

**2. Summary of Significant Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and in accordance with generally accepted accounting principles in the United States of America (GAAP) and include all accounts and wholly and majority-owned subsidiaries' accounts. All significant inter-company and inter-segment transactions and accounts have been eliminated upon consolidation.

*Use of Estimates*

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

*Reclassifications*

For the year ended December 31, 2019, all revenues and costs related to our fourth quarter brand conference were presented in their respective *Marketing, reservations, and reimbursables* line items in our Consolidated Statements of Comprehensive Income (Loss). In prior years, these revenues and expenses were reported in *Other franchise* and *Selling, general, administrative and other expenses*, respectively. We have reclassified these items in the Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2018, as well as the year ended December 31, 2017, for which no Consolidated Statement of Comprehensive Income (Loss) is presented:

	<b>For the Year Ended December 31, 2018</b>		
	<b>As Previously Reported</b>	<b>Reclassifications</b>	<b>As Reclassified</b>
<b>Revenue:</b>			
Marketing, reservations and reimbursables	\$ 25,948	\$ 2,291	\$ 28,239
Other franchise	5,537	(2,291)	3,246
<b>Operating Expenses</b>			
Marketing, reservations and reimbursables	\$ 26,877	\$ 1,060	\$ 27,937
Selling, general, administrative and other expenses	32,122	(1,060)	31,062

**For the Year Ended December 31, 2017**

	As Previously Reported	Reclassifications	As Reclassified
<b>Revenue:</b>			
Marketing, reservations and reimbursables	\$ 26,179	\$ 1,832	\$ 28,011
Other franchise	4,822	(1,832)	2,990
<b>Operating Expenses</b>			
Marketing, reservations and reimbursables	\$ 25,435	\$ 952	\$ 26,387
Selling, general, administrative and other expenses	29,753	(952)	28,801

*Revision of Previously Issued Financial Statements for Immaterial Misstatements*

Due to a non-income tax audit that was initiated in 2019, during the fourth quarter of 2019 we engaged a third party expert to assist management in a study that concluded we are probable of being assessed non-income taxes in additional states related to billings from 2016 through 2019. The total estimated non-income tax liability for all periods was estimated at \$2.0 million, which includes penalties and interest of \$0.3 million. There is significant subjectivity as to whether non-income taxes can be assessed on certain of our franchise billings. In order to mitigate our potential exposure, the company has requested acceptance into voluntary disclosure agreements with multiple states that comprise the majority of our exposure.

We have the ability and right to bill and collect a reimbursement of the incremental non-income tax, excluding penalties and interest, from our franchisees. However, as the amounts included significant judgment, cover multiple periods, and as we lack a history of collecting these types of non-income taxes, we have concluded we will not recognize an asset for potential reimbursement. We have assessed the effects of these errors to our previously issued financial statements and based upon quantitative and qualitative factors, determined that the errors were not material to our previously issued financial statements. Therefore we have corrected previously reported amounts by recognizing the 2016 and 2017 impact of \$0.7 million as a decrease in *Accumulated deficit* and an increase to *Other accrued liabilities* as of January 1, 2018, as well as recognizing \$0.6 million in *Selling, general, administrative and other expenses* with a corresponding decrease in *Net income (loss)* in 2018. The revision for the year ended December 31, 2018 reduced basic and diluted earnings per share by \$0.03.

The following table shows the impact of the immaterial revision to certain line items in our Consolidated Statements of Comprehensive Income (Loss) for previously reported quarters, after adjustment for the brand conference reclassification discussed above, during 2019 and 2018:

	For the Three Months Ended (unaudited)								
	March 31, 2019			June 30, 2019			September 30, 2019		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Selling, general, administrative and other expenses	\$ 7,228	\$ 163	\$ 7,391	\$ 6,497	\$ 163	\$ 6,660	\$ 8,196	\$ 205	\$ 8,401
Total operating expenses	29,449	163	29,612	31,196	163	31,359	37,169	205	37,374
Operating loss	(3,465)	(163)	(3,628)	(2,271)	(163)	(2,434)	(4,306)	(205)	(4,511)
Loss before taxes	(4,314)	(163)	(4,477)	(3,500)	(163)	(3,663)	(5,961)	(205)	(6,166)
Net loss	(4,396)	(163)	(4,559)	(3,608)	(163)	(3,771)	(6,447)	(205)	(6,652)
Net loss and comprehensive loss attributable to RLH Corporation	(4,110)	(163)	(4,273)	(2,834)	(163)	(2,997)	(3,467)	(205)	(3,672)
Loss per share - basic	\$ (0.17)	\$ —	\$ (0.17)	\$ (0.11)	\$ (0.01)	\$ (0.12)	\$ (0.14)	\$ (0.01)	\$ (0.15)
Loss per share - diluted	\$ (0.17)	\$ —	\$ (0.17)	\$ (0.11)	\$ (0.01)	\$ (0.12)	\$ (0.14)	\$ (0.01)	\$ (0.15)

For the Three Months Ended (unaudited)

	March 31, 2018		June 30, 2018		September 30, 2018		December 31, 2018					
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised	As Reclassified	Adjustment	As Revised
Selling, general, administrative and other expenses	\$ 7,210	\$ 128	\$ 7,338	\$ 8,268	\$ 140	\$ 8,408	\$ 8,112	\$ 187	\$ 8,299	\$ 7,472	\$ 164	\$ 7,636
Total operating expenses	23,477	128	23,605	38,943	140	39,083	16,236	187	16,423	35,440	164	35,604
Operating income (loss)	9,562	(128)	9,434	(331)	(140)	(471)	19,764	(187)	19,577	(7,242)	(164)	(7,406)
Income (loss) before taxes	7,473	(128)	7,345	(2,011)	(140)	(2,151)	17,587	(187)	17,400	(8,034)	(164)	(8,198)
Net income (loss)	7,338	(128)	7,210	(1,663)	(140)	(1,803)	17,613	(187)	17,426	(8,202)	(164)	(8,366)
Net income (loss) and comprehensive income (loss) attributable to RLH Corporation	2,588	(128)	2,460	(2,322)	(140)	(2,462)	8,943	(187)	8,756	(7,252)	(164)	(7,416)
Earnings (loss) per share - basic	\$ 0.11	\$ (0.01)	\$ 0.10	\$ (0.10)	\$ —	\$ (0.10)	\$ 0.36	\$ —	\$ 0.36	\$ (0.30)	\$ —	\$ (0.30)
Earnings (loss) per share - diluted	\$ 0.10	\$ —	\$ 0.10	\$ (0.10)	\$ —	\$ (0.10)	\$ 0.35	\$ (0.01)	\$ 0.34	\$ (0.30)	\$ —	\$ (0.30)

The following table shows the impact of the immaterial revision to certain line items in our previously reported Consolidated Balance Sheet as of December 31, 2018:

	December 31, 2018		
	As Previously Reported	Adjustment	As Revised
<b>Liabilities</b>			
Other accrued liabilities	\$ 4,960	\$ 1,334	\$ 6,294
Total current liabilities	40,740	1,334	42,074
Total liabilities	62,871	1,334	64,205
<b>Stockholders' equity</b>			
Accumulated deficit	\$ (16,512)	\$ (1,334)	\$ (17,846)
Total RLH Corporation stockholders' equity	165,752	(1,334)	164,418
Total stockholders' equity	186,916	(1,334)	185,582

The immaterial revision decreased *Retained Earnings (Accumulated Deficit)*, *RLH Corporation Total Equity*, and *Total Equity* in our Consolidated Statements of Changes in Stockholders' Equity as of December 31, 2018 and 2017 by \$1.3 million and \$0.7 million, respectively.

In the Consolidated Statement of Cash Flows for the year ended December 31, 2018, the immaterial revision decreased *Net income (loss)* by \$0.6 million and increased the change in *Other accrued liabilities* by \$0.6 million.

#### Revenue Recognition

Revenue is generally recognized as services are provided. Revenues are primarily derived from franchise contracts with third-party hotel owners, as well as from individual hotel guests and corporate patrons at our owned and leased hotels. Revenues are also derived from management of third-party owned hotels. The majority of compensation received for our performance obligations is variable consideration from our management and franchise contracts or fixed transactional guest consideration through our owned and leased hotels. We recognize the variable fees as the services to which they relate are delivered, applying the prescribed variable consideration allocation guidance. In certain circumstances we defer consideration and recognize consideration over time as the related performance obligations are satisfied.

### Franchised hotels revenue

We identified the following services as one performance obligation in connection with our franchise contracts:

- *Intellectual Property (IP)* licenses grant a non-exclusive, limited revocable license to the RLH trademarks and hotel names.
- *Manual and Training Services* provide operational assistance unique to the RLH brands, business model and standards.
- *Reservation Services* are provided through direct or indirect system access.
- *Marketing Services and Arrangements* benefit the overall hotel network and include brand promotions, direct guest marketing, brand name marketing and various other programs targeted at advertising to guests.
- *Brand Conference* is provided typically annually for third party owners to gather and attend educational seminars and brand informational presentations.

The performance obligation related to franchise revenues is delivered over time. While the underlying services may vary from day to day, the nature of the promises are the same each day, other than the Brand Conference, which is recognized in the month the service is provided, and the property owner can independently benefit from each day's services. Franchise fees are typically based on the sales or usage of the underlying hotel, with the exception of fixed upfront fees that usually represent an insignificant portion of the transaction price. In addition, we have certain franchise agreements that contain a declining royalty rate over the term of the contract. Revenue for these contracts cannot be recognized based on the underlying sales or usage of the hotel, but are instead accounted for as variable consideration recognized ratably over the term of the agreements.

*Franchised hotels revenue* represent fees earned in connection with the licensing of one of our brands, usually under long-term contracts with the property owner, and include the following:

- *Royalty fees* are generally based on a percentage of a hotel's monthly gross room revenue or a fixed monthly fee based on room count. These fees are typically billed and collected monthly, and revenue is generally recognized at the same time the fees are billed.
- *Marketing, reservations and reimbursables* are associated with our brands and shared services, which are paid from fees collected by us from the franchised properties. Revenue is generally recognized on a gross basis as fees are billed, which are based on the underlying hotel's sales or usage (e.g., gross room revenues and number of reservations processed) and expenses are expected to equal the revenues over time.
- *Other franchise fees* are primarily charges for services provided to franchised properties for revenue management and quality assurance inspections. In addition, this includes application, initiation and other fees that are charged when: (i) new hotels enter our system, (ii) there is a change of ownership, or (iii) contracts with properties already in our system are extended or modified. These fees are typically fixed and collected upfront and are recognized as revenue over the term of the franchise contract.

Any consideration paid or anticipated to be paid to incentivize hotel owners to enter into franchise contracts is capitalized and reduces revenues as amortized. The commission or direct costs of acquiring the contract or modification are recorded as contract acquisition costs and are recognized in franchise costs when amortized on a straight-line basis over the length of the contract.

### Company operated hotels revenue

We identified the following performance obligations in connection with our owned and leased hotel revenues, for which revenue is recognized as the respective performance obligations are satisfied, which results in recognizing the amount we expect to be entitled to for providing the goods or services to the hotel customer or guest:

- *Room reservations or ancillary services* are typically satisfied as the good or service is transferred to the hotel guest, which is generally when the room stay occurs.
- *Other ancillary goods and services* are purchased independently of the room reservation at standalone selling prices and are considered separate performance obligations, which are satisfied when the related good or service is provided to the hotel guest.
- *Hotel management fees* represent fees earned from hotels that we manage, usually under long-term contracts with the property owner and are generally based on a percentage of a hotel's monthly gross revenue. Base fees are typically billed and collected monthly, and revenue is generally recognized at the same time the fees are billed.
- *Other revenue from managed properties* represent direct reimbursements including payroll and related costs and certain other operating costs of the managed properties' operations, which are contractually reimbursed to us by the

property owners as expenses are incurred. Revenue is recognized based on the amount of expenses incurred by us that are included in *Company operated hotels* operating expenses in our Consolidated Statements of Comprehensive Income (loss). These expenses are then reimbursed by the property owner typically on a monthly basis, which results in no net effect on operating income (loss) or net income (loss).

*Company operated hotels revenue* primarily consist of hotel room rentals, revenue from accommodations sold in conjunction with other services (e.g., package reservations), food and beverage sales and other ancillary goods and services (e.g., parking) related to owned, leased and consolidated non-wholly owned (joint venture) hotel properties and hotel management fees and related direct reimbursement of certain operating costs for managed properties. Revenue is recognized when rooms are occupied or goods and services have been delivered or rendered, respectively. Payment terms typically align with when the goods and services are provided. The management fees from third-party hotel owners earned under the contract relate to a specific outcome of providing the services (e.g., hotel room sales). We use time as the measure of progress to recognize as revenue the fees that are allocated to the period earned per the contract.

#### Other revenues

*Other revenues* include revenues generated by the incidental support of hotel operations for owned, leased, managed and franchised hotels, including purchasing operations, and other operating income.

#### Taxes and fees collected on behalf of governmental agencies

We are required to collect certain taxes and fees from customers on behalf of governmental agencies and remit these back to the applicable governmental agencies on a periodic basis. We have a legal obligation to act as a collection agent. We do not retain these taxes and fees and, therefore, they are not included in our measurement of transaction prices. We have elected to present revenue net of sales taxes and other similar taxes. We record a liability when the amounts are collected and relieve the liability when payments are made to the applicable taxing authority or other appropriate governmental agency.

#### *Cash and Cash Equivalents*

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. At times, cash balances at banks and other financial institutions may be in excess of federal insurance limits.

#### *Restricted Cash*

In accordance with our various borrowing arrangements, cash is often restricted and held primarily as reserves for debt service (interest only), property improvements and other requirements from the lenders.

#### *Notes Receivable*

We carry notes receivable at their estimated collection amount, and they are classified as either current or long-term depending on the expected collection date. Interest income on notes receivable is recognized using the interest method.

#### *Allowance for Doubtful Accounts*

The ability to collect individual accounts or notes receivable is reviewed on a routine basis. An allowance for doubtful accounts is recognized based on a combination of reserves calculated based on underlying characteristics of receivables (such as the age of the related receivable) as well as specifically identified amounts believed to be uncollectible. If actual collection experience changes, revisions to the allowance may be required and if all attempts to collect a receivable fail, it is recorded against the allowance. The estimate of the allowance for doubtful accounts may be impacted by, among other things, national and regional economic conditions. Acquired accounts receivable from business acquisitions are recorded at fair value, based on amounts expected to be collected, therefore no allowance for doubtful accounts related to these accounts is recorded at the acquisition date.

The following schedule summarizes the activity in the allowance account for trade accounts receivable for the past two years (in thousands):

	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Allowance for doubtful accounts</b>		
Balance, beginning of year	\$ 2,345	\$ 1,436
Additions to allowance	3,383	1,014
Write-offs, net of recoveries	(1,139)	(105)
Balance, end of year	<u>\$ 4,589</u>	<u>\$ 2,345</u>

The following schedule summarizes the activity in the allowance account for notes receivable for the year ended December 31, 2019 (in thousands). There was no comparable activity for the year ended December 31, 2018.

	<b>Year Ended</b>
	<b>December 31, 2019</b>
<b>Allowance for doubtful accounts</b>	
Balance, beginning of year	\$ —
Additions to allowance	552
Balance, end of year	<u>\$ 552</u>

#### *Other Current Assets*

Other current assets primarily includes prepaid and other expenses such as prepaid insurance, prepaid taxes, deposits, advertising costs and prepaid costs related to our brand conferences. Other current assets also consists of inventories, which are mostly food and beverage products held for sale at the company operated restaurants and guest supplies. Inventories are valued at the lower of cost, determined on a first-in, first-out basis, or net realizable value.

#### *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation. The cost of improvements that extend the life of property and equipment are capitalized. Repairs and maintenance charges are recognized as incurred.

Depreciation is calculated using the straight-line method over the estimated useful life of each asset, which ranges as follows:

Buildings	25 to 39 years
Equipment	2 to 15 years
Furniture and fixtures	2 to 15 years
Landscaping and improvements	15 years

Leasehold improvements are capitalized and depreciated over the term of the applicable lease, including renewable periods if reasonably assured to be exercised based on economic conditions and factors, or over the useful lives, whichever is shorter.

#### *Assets Held for Sale*

We consider a property to be an asset held for sale when all of the following criteria are met:

- management commits to a plan to sell the property;
- it is unlikely that the disposal plan will be significantly modified or discontinued;
- the property is available for immediate sale in its present condition;
- actions required to complete the sale of the property have been initiated;
- sale of the property is probable, we expect the completed sale will occur within one year; and
- the property is actively being marketed for sale at a price that is reasonable given its current market value.

Upon designation as an asset held for sale, we record the carrying value of each property at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and cease depreciation.

## *Leases*

We determine if an arrangement is a lease or contains a lease at inception. If an arrangement is a lease or contains a lease, we then determine whether the lease meets the criteria of a finance lease or an operating lease. Finance leases are included in *Property and equipment, net*, *Other accrued liabilities*, and *Deferred income and other long-term liabilities* in our Consolidated Balance Sheets. Operating leases are included in *Operating lease right-of-use assets*, *Operating lease liabilities, due within one year*, and *Operating lease liabilities, due after one year*, in our Consolidated Balance Sheets. We reassess if an arrangement is or contains a lease upon modification of the arrangement.

At the commencement date of a lease, we recognize a lease liability for contractual fixed lease payments and a corresponding right-of-use asset representing our right to use the underlying asset during the lease term. The lease liability is measured initially as the present value of the contractual fixed lease payments during the lease term. The lease term additionally includes renewal periods only if it is reasonably certain that we will exercise the options. Contractual fixed lease payments are discounted at the rate implicit in the lease when readily determinable. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date. For the adoption of Accounting Standards Update ("ASU") 2016-02, we measured our lease liabilities using our incremental borrowing rate as of January 1, 2019. Additionally, we elected not to recognize leases with lease terms of 12 months or less at the commencement date in our Consolidated Balance Sheets. The right-of-use asset is recognized at the amount of the lease liability with certain adjustments, if applicable. These adjustments include lease incentives, prepaid rent, and initial direct costs.

## *Goodwill*

Goodwill is assigned to our reporting units based on the expected benefit from the synergies arising from each business combination, determined by using certain financial metrics. The reporting units are aligned with our reporting segments. Goodwill is not amortized, but we test goodwill for impairment each year as of October 1, or more frequently should facts and circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than the carrying amount. As part of the impairment test, we may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit, including goodwill, is less than its carrying amount, or if we elect to bypass the qualitative assessment, we would then proceed with a quantitative assessment. The quantitative assessment involves calculating an estimated fair value of each reporting unit based on projected future cash flows, and comparing the estimated fair values of the reporting units to their carrying amounts, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying value, including goodwill, no impairment is recognized. However, if the carrying amount of a reporting unit, including goodwill, exceeds its fair value, an impairment loss is recognized in an amount equal to the excess, limited to the total goodwill balance of the reporting unit.

We have not recognized any impairment on goodwill during the years ended December 31, 2019 and 2018.

## *Indefinite-Lived Intangible Assets*

Through prior business combinations we have obtained intangible assets related to our Americas Best Value Inn, Canadas Best Value Inn, Guesthouse, Knights Inn, and Red Lion brands. At the time of each acquisition, the brands were assigned a fair value based on the relief from royalty method. As there are no limitations on the useful lives of these assets, we have determined they are indefinite-lived intangible assets that will not be amortized. Annually, on October 1, we reassess the useful lives of each asset to determine if they should continue to be classified as indefinite and we additionally test the assets for impairment. Impairment may also be tested at any point in which facts and circumstances indicate that it is more likely than not that the fair value of the asset is less than the carrying amount. As part of the impairment test, we may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of the asset is less than its carrying amount, or if we elect to bypass the qualitative assessment, we would then proceed with a quantitative assessment. The quantitative assessment involves calculating an estimated fair value of the asset using the relief from royalty method, and comparing the estimated fair value of the asset to its carrying amount. If the estimated fair value of the asset exceeds its carrying value, no impairment is recognized. However, if the carrying amount of the asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess.

As of October 1, 2019, we recognized impairment losses on the Americas Best Value Inn and Knights Inn brand name indefinite-lived intangible assets of \$7.4 million and \$1.3 million, respectively. As of October 1, 2018, we recognized an impairment loss on the Guesthouse brand name indefinite-lived intangible asset of \$3.5 million and reclassified the \$2.1 million remaining fair value from an indefinite-lived intangible asset to a finite-lived intangible asset. The impairment losses are included in *Asset*



*impairment* in the Consolidated Statements of Comprehensive Income (Loss). See further discussion of the impairment and reclassification at Note 6, *Goodwill and Intangible Assets*.

#### *Valuation of Long-Lived Assets Including Finite-Lived Intangible Assets*

We test long-lived asset groups, including finite-lived intangible assets, for recoverability when changes in circumstances indicate the carrying value may not be recoverable. For example, when there are material adverse changes in projected revenues or expenses, significant underperformance relative to historical or projected operating results, or significant negative industry or economic trends. We also perform a test for recoverability when management has committed to a plan to sell or otherwise dispose of an asset group. We evaluate recoverability of an asset group by comparing its carrying value to the future net undiscounted cash flows that we expect will be generated by the asset group. If the comparison indicates that the carrying value of an asset group is not recoverable, we recognize an impairment loss for the excess of carrying value over the estimated fair value. When we recognize an impairment loss for assets to be held and used, we depreciate the adjusted carrying amount of those assets over their remaining useful life.

During the year ended December 31, 2019, we recognized an impairment loss on our Hotel RL Washington DC joint venture property of \$5.4 million and during the year ended December 31, 2018, we recognized an impairment loss on our Hotel RL Baltimore Inner Harbor joint venture property of \$7.1 million. These losses are included in *Asset impairment* in the Consolidated Statements of Comprehensive Income (Loss). See further discussion of the impairment losses at Note 5, *Property and Equipment*.

#### *Variable Interest Entities*

We analyze the investments we make in joint venture entities based on the accounting guidance for variable interest entities (VIEs). These joint ventures are evaluated to determine whether (1) sufficient equity at risk exists for the legal entity to finance its activities without additional subordinated financial support or, (2) as a group, the holders of the equity investment at risk lack one of the following characteristics (a) the power, through voting or similar rights, to direct the activities of the legal entity that most significantly impact the entity's economic performance or, (b) the obligation to absorb the expected losses of the legal entity or (c) the right to receive expected residual returns of the legal entity, or (3) the voting rights of some equity investors are not proportional to their obligations to absorb the losses or the right to receive benefits and substantially all of the activities either involve or are conducted on behalf of an investor with disproportionately few voting rights. If any one of the above three conditions are met then the joint venture entities are considered to be VIEs.

We consolidate the results of any such VIE in which we determine that we are the primary beneficiary. We are considered to be the primary beneficiary of an entity if we have both the power to direct the activities that most significantly affect the VIE's economic performance and the obligation to absorb the losses of, or right to receive the benefits from, the VIE that could be potentially significant to the VIE.

#### *Business Combinations*

On the date of acquisition, the assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree are recorded at their fair values. The acquiree's results of operations are also included in our consolidated results as of the date of acquisition. Intangible assets that arise from contractual/legal rights, or are capable of being separated are measured and recorded at fair value, and amortized over the estimated useful life. If practicable, assets acquired and liabilities assumed arising from contingencies are measured and recorded at fair value. If the valuation of any contingent assets or liabilities is not practicable, such assets and liabilities are measured and recorded when it is probable that a gain or loss has occurred and the amount can be reasonably estimated. The residual balance of the purchase price, after fair value allocations to all identified assets and liabilities, represents goodwill. Acquisition-related costs are recognized as incurred. Restructuring costs associated with an acquisition are generally recognized in periods subsequent to the acquisition date, and changes in deferred tax asset valuation allowances and acquired income tax uncertainties, including penalties and interest, after the measurement period are recognized as a component of the provision for income taxes. Our acquisitions may include contingent consideration, which require us to recognize the fair value of the estimated liability at the time of the acquisition. Subsequent changes in the estimate of the amount to be paid under the contingent consideration arrangement are recognized in the Consolidated Statements of Comprehensive Income (Loss). Cash payments for contingent or deferred consideration up to the amount of liability recognized on the acquisition date are classified within cash flows from financing activities within the Consolidated Statements of Cash Flows and any excess is classified as cash flows from operating activities.

### *Other Assets*

Other assets primarily consist of key money arrangements with certain of our franchisees and IT system implementation and license costs, for both our franchisees and our company operated hotels. We recognize key money paid in conjunction with entering into long-term franchise agreements as prepaid expenses and amortize the amount paid as a reduction of revenue over the term of the franchise agreements. IT system implementation and license costs represent costs incurred to implement, operate and maintain RevPak, our proprietary guest management system application and are amortized over the initial term of the software license arrangement or the current license period, as applicable.

### *Fair Value Measurements*

Applicable accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We measure our assets and liabilities using inputs from the following three levels of the fair value hierarchy:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.
- Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
- Level 3 includes unobservable inputs that reflect assumptions about what factors market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

### *Income Taxes*

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning, and results of recent operations. At December 31, 2019 and 2018, a partial valuation allowance was recorded to reduce our deferred tax assets to an amount that is more likely than not to be realized. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We classify any interest expense and penalties related to underpayment of taxes and any interest income on tax overpayments as components of income tax expense.

We record uncertain tax positions in accordance with Accounting Standards Codification (ASC) 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. See Note 13, *Income Taxes*.

### *Advertising and Promotion*

Costs associated with advertising and promotional efforts are generally recognized as incurred. During the years ended December 31, 2019 and 2018, we incurred approximately \$2.3 million and \$2.7 million, respectively, in advertising expense included in *Marketing, reservations, and reimbursables expense* in the Consolidated Statements of Comprehensive Income (Loss).

### *Basic and Diluted Earnings (Loss) Per Share*

Basic earnings (loss) per share attributable to RLH Corporation is computed by dividing income (loss) attributable to RLH Corporation by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share

attributable to RLH Corporation gives effect to all dilutive potential shares that are outstanding during the period and include outstanding stock options, other outstanding employee equity grants and warrants, by increasing the weighted-average number of shares outstanding by their effect. See Note 12 *Earnings (Loss) Per Share*.

#### *New Accounting Pronouncements Not Yet Adopted*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments*, which will change how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The ASU will replace the current "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For trade and other receivables, held to maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowances for losses. In October 2019, an update was issued to the standard that deferred the effective date of the guidance to the first quarter of 2023 for smaller reporting companies such as us. We are currently evaluating the effects of this ASU on our financial statements, and such effects have not yet been determined.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which provides modifications to the disclosure requirements over fair value measurements. The ASU is effective in the first quarter of 2020, with early adoption permitted. We do not anticipate the adoption of this standard will have a material impact on our financial statements.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, which amends the existing guidance related to the accounting for income taxes. The ASU eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition for outside basis differences related to changes in ownership of equity method investments and foreign subsidiaries. The guidance also simplifies aspects of accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The ASU is effective the first quarter of 2021, with early adoption permitted. We are currently evaluating the effects of this ASU on our financial statements, and such effects have not yet been determined.

We have assessed the potential impact of other recently issued, but not yet effective, accounting standards and determined that the provisions are either not applicable to us or are not anticipated to have a material impact on our consolidated financial statements.

#### *New Accounting Pronouncements Adopted*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("Topic 842"), which we adopted on January 1, 2019. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification effecting the pattern of expense recognition in the income statement. Upon adoption, we applied the package of practical expedients included therein, which allows us to carry forward our historical assessments of whether contracts are leases or contain leases, the lease classification of each existing lease, and recognition of initial direct costs. The standard was adopted using the modified retrospective transition method and we did not apply the standard to the comparative periods presented in the year of adoption.

Due to the existence of certain operating lease obligations as of January 1, 2019, we recognized \$51.1 million of ROU assets and corresponding lease liabilities of approximately \$52.2 million, with reductions of other accrued liabilities and deferred income and other long-term liabilities of approximately \$1.1 million. However, there was no impact to accumulated deficit and the future recognition of lease related expenses will not differ from the previous methodology in the Consolidated Statements of Comprehensive Income (Loss) for leases that existed at the adoption date.

### **3. Business Segments**

We have two operating segments: franchised hotels and company operated hotels. The "other" segment consists of miscellaneous revenues and expenses, cash and cash equivalents, certain receivables, certain property and equipment and general and administrative expenses, which are not specifically associated with an operating segment. Management reviews and evaluates the operating segments exclusive of interest expense, income taxes and certain corporate expenses; therefore, they have not been allocated to the operating segments. We allocate direct selling, general, administrative and other expenses to our operating segments. All balances have been presented after the elimination of inter-segment and intra-segment revenues and expenses.

Selected financial information is provided below (in thousands):

<b>Year Ended December 31, 2019</b>	<b>Franchised Hotels</b>	<b>Company Operated Hotels</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 59,245	\$ 55,029	\$ 14	\$ 114,288
Operating expenses:				
Segment and other operating expenses	41,474	50,514	15,336	107,324
Depreciation and amortization	4,033	7,161	3,373	14,567
Asset impairment	8,746	5,382	—	14,128
(Gain) loss on asset dispositions, net	(1)	(7,188)	122	(7,067)
Transaction and integration costs	90	276	266	632
Operating income (loss)	\$ 4,903	\$ (1,116)	\$ (19,083)	\$ (15,296)
Capital expenditures	\$ 1,426	\$ 526	\$ 2,987	\$ 4,939
Identifiable assets as of December 31, 2019 <sup>(1)</sup>	\$ 91,832	\$ 138,477	\$ 16,209	\$ 246,518

<sup>(1)</sup> During the fourth quarter of 2019 we reclassified a \$4.7 million indefinite lived Red Lion brand name intangible asset from our Company operated hotels segment to the Franchised hotels segment. With sales of our company operated hotels, we continue to transition to a hotel franchising company, therefore the value of the Red Lion brand name resides primarily in the Franchised Hotels segment.

<b>Year Ended December 31, 2018</b>	<b>Franchised Hotels</b>	<b>Company Operated Hotels</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 53,794	\$ 82,021	\$ 34	\$ 135,849
Operating expenses:				
Segment and other operating expenses	36,822	70,899	19,211	126,932
Depreciation and amortization	4,110	11,007	1,886	17,003
Asset impairment	3,482	7,100	—	10,582
Gain on asset dispositions, net	—	(41,943)	(78)	(42,021)
Transaction and integration costs	2,219	—	—	2,219
Operating income (loss)	\$ 7,161	\$ 34,958	\$ (20,985)	\$ 21,134
Capital expenditures	\$ 455	\$ 2,166	\$ 5,994	\$ 8,615
Identifiable assets as of December 31, 2018	\$ 101,863	\$ 123,527	\$ 24,397	\$ 249,787

#### 4. Variable Interest Entities

Our joint venture entities have been determined to be variable interest entities (VIEs), and RLH Corporation has been determined to be the primary beneficiary of each VIE. Therefore, we consolidate the assets, liabilities, and results of operations of (1) RL Venture LLC (RL Venture), (2) RLS Balt Venture LLC (RLS Balt Venture), (3) RLS Atla Venture LLC (RLS Atla Venture) and (4) RLS DC Venture LLC (RLS DC Venture). In October 2018, we purchased the outstanding noncontrolling interest of RLS Balt Venture, making the entity a wholly owned subsidiary that is no longer a variable interest entity. This transaction is described further below.

##### *RL Venture*

We own a 55% interest in RL Venture, with the remaining 45% owned by Shelbourne Falcon RLHC Hotel Investors LLC (Shelbourne Falcon), an entity that is led by Shelbourne Capital LLC (Shelbourne). The hotels owned by RL Venture were managed by RL Management, one of our wholly-owned subsidiaries, subject to a management agreement until December 2018, at which point management of the hotels was outsourced to a third party management company. RL Venture is considered a variable interest entity because our voting rights are not proportional to our financial interest and substantially all of RL Venture's activities are conducted on our behalf. We have determined that we are the primary beneficiary as (a) we exert power over two of the entity's key activities (hotel operations and property renovations) and share power over the remaining key activities with

Shelbourne Falcon, which does not have the unilateral ability to exercise kick-out rights, and (b) we have the obligation to absorb losses and right to receive benefits that could be significant to the entity through our 55% equity interest and management fees. As a result, we consolidate RL Venture. The equity interest owned by Shelbourne Falcon is reflected as a noncontrolling interest in the consolidated financial statements.

In February 2018, five of the RL Venture properties were sold for an aggregate sale price of \$47.2 million. In April 2018, one of the RL Venture properties sold for \$5.5 million. In May 2018, one of the RL Venture properties sold for \$9.3 million. In July 2018, two additional RL Venture properties sold for \$54.5 million. In December 2019, one additional RL Venture property, the Hotel RL Salt Lake City, sold for \$33.0 million. As of December 31, 2019, RL Venture holds one remaining property. See further discussion of these sales in Note 16, *Acquisitions and Dispositions*. Proceeds from the 2018 property sales were used to repay in full the RL Venture term loan as discussed further in Note 8, *Debt and Line of Credit*.

In March 2019, secured loans with an aggregate principal of \$16.6 million were entered into for two RL Venture properties, Hotel RL Salt Lake City and Hotel RL Olympia. Shortly thereafter, the net loan proceeds were distributed to us and our joint venture partner in accordance with our respective ownership percentages. Proceeds from the 2019 RL Venture sale of the Hotel RL Salt Lake City were used to repay in full the secured loan entered into in 2019 for the Hotel RL Salt Lake City property as discussed further in Note 8, *Debt and Line of Credit*.

Cash distributions may also be made periodically based on calculated distributable income. For the year ended December 31, 2019, RL Venture made cash distributions of \$39.1 million, of which we received \$21.5 million. For the year ended December 31, 2018, RL Venture made cash distributions of \$47.6 million, of which we received \$26.2 million.

#### *RLS Atla Venture*

We own a 55% interest in RLS Alta Venture and Shelbourne Falcon Big Peach Investors LLC (Shelbourne Falcon III), an entity led by Shelbourne, owns a 45% interest. RLS Atla Venture is considered a variable interest entity because our voting rights are not proportional to our financial interest and substantially all of RLS Atla Venture's activities are conducted on our behalf. We have determined that we are the primary beneficiary as (a) we exert power over the entity's key activities (hotel operations and property renovations) and share power over the remaining key activities with Shelbourne Falcon III, which does not have the unilateral ability to exercise kick-out rights, and (b) we have the obligation to absorb losses and right to receive benefits that could be significant to the entity through our 55% equity interest and management fees. As a result, we consolidate RLS Atla Venture.

RLH Atlanta LLC (RLH Atlanta), which is wholly-owned by RLS Atla Venture, owned a hotel adjacent to the Atlanta International Airport that opened in April 2016 as the Red Lion Hotel Atlanta International Airport, which was managed by RL Management. The Red Lion Hotel Atlanta International Airport hotel was sold in November 2019 for \$12.3 million. RLS Alta Venture, LLC received \$4.8 million in cash proceeds from the sale after various prorations, selling costs, and the full repayment of the outstanding principal of the RLH Atla Venture mortgage loan. Of the net cash proceeds, RLH Corporation received the entire \$4.8 million. Shelbourne Falcon III did not receive any distributions as a result of amounts due to RLH Corporation from RLS Atla Venture and RLH preferred equity. The \$0.4 million balance remaining in non-controlling interest for the entity was reclassified to *Additional paid-in capital* on the Consolidated Balance Sheets as no remaining distributions to the joint venture partner are required.

Cash distributions may also be made periodically based on calculated distributable income. There were no cash distributions made during the year ended December 31, 2018.

#### *RLS DC Venture*

We own a 55% of RLS DC Venture, and Shelbourne Falcon DC Investors LLC (Shelbourne Falcon IV), an entity led by Shelbourne, owns 45%. RLC DC LLC, which is wholly-owned by RLS DC Venture, owns a Hotel RL in Washington DC, which was managed by RL Management until December 2018, at which point management of the hotel was outsourced to a third party management company. RLS DC Venture is considered a variable interest entity because our voting rights are not proportional to our financial interest, and substantially all of RLS DC Venture's activities are conducted on our behalf. We have determined that we are the primary beneficiary as (a) we exert power over the entity's key activities (hotel operations and property renovations) and share power over the remaining key activities with Shelbourne Falcon IV, which does not have the unilateral ability to exercise kick-out rights, and (b) we have the obligation to absorb losses and right to receive benefits that could be significant to the entity through our 55% equity interest and management fees. As a result, we consolidate RLS DC Venture. The equity interest owned by Shelbourne Falcon IV is reflected as a noncontrolling interest in the consolidated financial statements.

In May 2017, RLH Corporation provided \$950,000 to RLS DC Venture to fund restricted cash required by its loan agreement with Pacific Western Bank. In May 2018, RLH Corporation provided \$450,000 to RLS DC Venture to be used as a principal payment on the debt to Pacific Western Bank to bring the loan into compliance with the loan to value debt covenant requirement of the loan agreement. These fundings were not treated as a loan or as a capital contribution. Rather, it is preferred capital of RLS DC Venture and will be repaid only when the DC hotel property is sold, when RLS DC Venture is liquidated, or the restricted cash is released per the loan agreement. Upon such an event, RLH Corporation will receive a return of its preferred capital plus a preferred return of 9% on the May 2017 preferred capital and 11% on the May 2018 preferred capital, compounded annually, prior to any liquidation proceeds being returned to the members.

In May 2018, the loan was also amended to add a \$4.5 million principal guarantee by RLH Corporation. The amendment also allows future debt service coverage ratio covenant defaults to be cured by an increase in the RLH Corporation principal guarantee. This option can be exercised a maximum of two times during the remaining term of the loan. In December 2018, the loan was further amended to add an additional \$6.0 million principal guarantee by RLH Corporation, remediating Q3 2018 breaches in the debt service coverage ratio and the required loan to value ratio through May 31, 2019. In May 2019, a secured loan with principal and accrued exit fee of \$17.4 million was executed by RLS DC Venture. The net loan proceeds were used to pay off the previous debt with a principal balance of approximately \$15.9 million. There were no cash distributions resulting from the refinancing. Cash distributions may be made periodically based on calculated distributable income. There were no cash distributions made during the years ended December 31, 2019 or 2018.

#### *RLS Balt Venture*

RLS Balt Venture owns the Hotel RL Baltimore Inner Harbor. Prior to October 2018, we owned a 73% interest in RLS Balt Venture, with the remaining 27% owned by Shelbourne Falcon II. In October 2018, we signed an agreement with Shelbourne Falcon Charm City Investors LLC (Shelbourne Falcon II), an entity led by Shelbourne, in which we dissolved the joint venture relationship in exchange for consideration of \$0.3 million and RLH Corporation was given 100% ownership of RLS Balt Venture LLC. The buyout impacted the balance sheet through an increase in the noncontrolling interest balance of \$2.1 million and a decrease in additional paid in capital of \$2.4 million. Subsequent to the buyout, RLS Balt Venture became a fully consolidated subsidiary of the Company and was no longer a variable interest entity as of December 31, 2018.

Previously, RLS Balt Venture was considered a variable interest entity because our voting rights were not proportional to our financial interest and substantially all of RLS Balt Venture's activities were conducted on our behalf. We were the primary beneficiary as (a) we exerted power over the entity's key activities (hotel operations and property renovations) and shared power over the remaining key activities with Shelbourne Falcon II, which did not have the unilateral ability to exercise kick-out rights, and (b) we had the obligation to absorb losses and right to receive benefits that could be significant to the entity through our 73% equity interest and management fees. As a result, we consolidated RLS Balt Venture. The equity interest owned by Shelbourne Falcon II was reflected as a noncontrolling interest in the consolidated financial statements.

In May 2018, RLH Corporation provided \$2.8 million to RLS Balt Venture to fund operating losses. There were no cash distributions made during the year ended December 31, 2018.

## **5. Property and Equipment**

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Buildings and equipment	\$ 101,619	\$ 150,072
Furniture and fixtures	12,407	19,746
Landscaping and land improvements	2,038	2,713
	116,064	172,531
Less accumulated depreciation	(57,491)	(82,240)
	58,573	90,291
Land	6,871	19,372
Construction in progress	3,224	5,859
Property and equipment, net	<u>\$ 68,668</u>	<u>\$ 115,522</u>

During 2019, we entered into individual non-binding sales agreements with third parties for four of our company operated hotels. Due to the potential for disposition within 12 months, we performed a test for recoverability using probability-weighted undiscounted cash flows on each of these four properties, noting only our Hotel RL Washington DC joint venture property did not recover the carrying value of the long-lived asset group. After calculating the fair value of the Hotel RL Washington DC joint venture property long-lived asset group, we recognized an impairment loss of \$5.4 million. The fair value was determined based on the contractual selling price less expected costs to sell, which is a Level 3 fair value measurement. The impairment loss was allocated to the assets within the long-lived asset group on a pro rata basis, with \$3.4 million applied against the hotel building, included within *Property and equipment, net* and \$2.0 million applied against the *Operating lease right-of-use asset* on the Consolidated Balance Sheet. There were no impairments at the other three properties.

In the third quarter of 2018, we recognized a \$7.1 million impairment on our Hotel RL Baltimore Inner Harbor joint venture property. The default during the third quarter of 2018 on the RL Baltimore loan, coupled with challenging cash flow results for the asset gave rise to the impairment. The fair value of the asset was determined by a third-party valuation that included an analysis of selling prices for similar assets as well as a discounted cash flow analysis, which are Level 3 fair value measurements. Key inputs to the fair value measurement for these assets included forecasted revenues expected to be generated by the hotel, factoring in the market it serves, as well as forecasted operating costs and capital expenditures that would be incurred by a market participant. Other inputs included sales data for similarly situated hotels in the market, adjusted to reflect known differences in the assets.

During the years ended December 31, 2019 and 2018, we sold two and nine hotel properties, respectively, for a total gain of \$7.3 million and \$40.7 million, respectively. See further discussion of these dispositions at Note 16, *Acquisitions and Dispositions*.

## **6. Goodwill and Intangible Assets**

### *2019 Impairment*

During the fourth quarter of 2019, as part of our annual impairment testing of indefinite lived intangible assets, we identified an impairment of \$7.4 million on our Americas Best Value Inn indefinite lived brand name and an impairment of \$1.3 million on our Knights Inn indefinite lived brand name, both within our franchised hotels segment. Both brands have experienced lower growth and higher terminations than previously expected. These brand name assets continue to be classified as indefinite lived intangible assets as we are committed to the support and growth of these brands as part of our long term business strategy. The impairment losses are included in the *Asset Impairment* caption in the Consolidated Statements of Comprehensive Income (Loss). No further impairments were identified in the annual impairment testing of our goodwill and other indefinite lived intangible assets.

The inputs used to measure the fair values of the Americas Best Value Inn and Knights Inn brand names were largely unobservable, and accordingly, these measures are classified as Level 3. The fair values of the brand names were estimated based on the relief from royalty method, which models the cash flows from the brand intangibles assuming royalties were received under a licensing arrangement. This discounted cash flow analysis uses inputs such as forecasted future revenues attributable to the brand, assumed royalty rates and a risk-adjusted discount rate that approximates the estimated cost of capital. The unobservable inputs used in this valuation included projected revenue growth rates, royalty rates, and the discount rate. The Company used a discount rate of 11%.

### *2018 Impairment*

During the fourth quarter of 2018, as part of our annual impairment testing of indefinite lived intangible assets, we identified an impairment of \$3.5 million on our Guesthouse indefinite lived brand name in our franchised hotels segment as the brand has encountered lower growth than previously expected, mostly due to the addition of other offerings in our portfolio. The impairment loss is included in the *Asset Impairment* caption in the Consolidated Statements of Comprehensive Income (Loss).

The inputs used to measure the fair value of the Guesthouse brand name were largely unobservable and therefore the measure is classified as Level 3. The fair value of the Guesthouse brand name was estimated based on the relief from royalty method, and the unobservable inputs used in this valuation included projected revenue growth rates, royalty rates, and the discount rate. The Company used a discount rate of 11%. Additionally, we reclassified the remaining \$2.1 million balance to a finite lived brand name with a remaining useful life of 6.3 years as of December 31, 2018.

The following table summarizes the balances of goodwill and other intangible assets (in thousands):

	December 31,	
	2019	2018
Goodwill	\$ 18,595	\$ 18,595
<b>Intangible assets</b>		
Brand name - indefinite lived	\$ 32,532	\$ 41,278
Trademarks - indefinite lived	128	128
Brand name - finite lived, net	3,554	4,326
Customer contracts - finite lived, net	12,398	15,178
Total intangible assets	\$ 48,612	\$ 60,910

Goodwill and other intangible assets attributable to each of our business segments at December 31, 2019 and 2018 were as follows (in thousands):

	December 31,			
	2019		2018	
	Goodwill	Intangible Assets	Goodwill	Intangible Assets
Company operated hotels	\$ —	\$ —	\$ —	\$ 4,660
Franchised hotels	18,595	48,612	18,595	56,250
Total	\$ 18,595	\$ 48,612	\$ 18,595	\$ 60,910

During the fourth quarter of 2019 we reclassified a \$4.7 million indefinite lived Red Lion brand name intangible asset from our Company operated hotels segment to the Franchised hotels segment. With sales of our company operated hotels, we continue to transition to a hotel franchising company; therefore the value of the Red Lion brand name resides primarily in the Franchised Hotels segment.

The following table summarizes the balances of amortized customer contracts and finite-lived brand names (in thousands):

	December 31,	
	2019	2018
Customer contracts <sup>(1)</sup>	\$ 20,773	\$ 20,773
Brand name - finite lived <sup>(2)</sup>	5,395	5,395
Accumulated amortization	(10,216)	(6,664)
Net carrying amount	\$ 15,952	\$ 19,504

<sup>(1)</sup> Customer contracts are being amortized on a straight-line basis over useful remaining lives ranging from 5.3 years to 14.0 years, with a weighted average remaining life of 12.3 years.

<sup>(2)</sup> Brand name - finite lived are being amortized on a straight-line basis over useful remaining lives ranging from 5.3 years to 6.8 years, with a weighted average remaining life of 6.1 years.

Amortization of our finite lived intangible assets was \$3.6 million and \$3.2 million for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019, estimated future amortization expenses related to customer contracts and finite-lived brand names is as follows (in thousands):



<b>Years Ending December 31,</b>	<b>Amount</b>
2020	\$ 3,055
2021	2,643
2022	2,306
2023	2,008
2024	1,721
Thereafter	4,219
<b>Total</b>	<b>\$ 15,952</b>

## 7. Revenue from Contracts with Customers

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers (in thousands):

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Accounts receivable	\$ 15,143	\$ 18,575
Key money	2,228	6,409
Capitalized contract costs	941	1,172
Contract liabilities	1,448	1,981

Significant changes in the key money disbursements, capitalized contract costs, and contract liabilities balances during the period are as follows (in thousands):

	<b>Key Money</b>	<b>Capitalized Contract Costs</b>	<b>Contract Liabilities</b>
Balance as of January 1, 2019	\$ 6,409	\$ 1,172	\$ 1,981
Key money cash disbursements	857	—	—
Key money converted from accounts receivable	128	—	—
Key money converted to notes receivable	(4,594)	—	—
Costs incurred to acquire contracts	—	363	—
Cash received in advance	—	—	634
Revenue or expense recognized that was included in the January 1, 2019 balance	(457)	(510)	(1,029)
Revenue or expense recognized in the period for the period	(115)	(84)	(138)
<b>Balance as of December 31, 2019</b>	<b>\$ 2,228</b>	<b>\$ 941</b>	<b>\$ 1,448</b>

Estimated revenues and expenses expected to be recognized related to performance obligations that were unsatisfied as of December 31, 2019, including revenues related to application, initiation and other fees are as follows (in thousands):

<b>Years Ending December 31,</b>	<b>Contra Revenue</b>	<b>Expense</b>	<b>Revenue</b>
2020	\$ 341	\$ 232	\$ 500
2021	266	166	332
2022	234	137	240
2023	198	91	140
2024	167	46	72
Thereafter	1,022	269	164
<b>Total</b>	<b>\$ 2,228</b>	<b>\$ 941</b>	<b>\$ 1,448</b>

We did not estimate revenues expected to be recognized related to our unsatisfied performance obligations for our: (i) royalty fees, as they are considered sales-based royalty fees recognized as hotel room sales occur in exchange for licenses of our brand names over the terms of the franchise contracts; and (ii) hotel management fees since they are allocated entirely to the wholly unsatisfied promise to transfer management services, which form part of a single performance obligation in a series, over the term of the management contract. Therefore, there are no amounts included in the table above related to these revenues.

### *Inner Circle*

In July 2019, the parent entities for eight Inner Circle franchisees and the operating entities for two other Inner Circle franchisees all filed for voluntary bankruptcy protection under Chapter 11 of the United States Bankruptcy Code.

As of the date of this filing, four of the Inner Circle franchisees transferred control of their leasehold interests on their hotel properties to their lenders, and four more of the Inner Circle franchisees ceased operations until further notice. Those eight Inner Circle franchise agreements have been terminated, while the remaining two Inner Circle franchise agreements continue to be in full effect. Additionally, four replacement franchise agreements have been executed with lenders who have taken control of the properties and continue to operate them pending sale proceedings.

As of December 31, 2019, the ten Inner Circle franchisees described above in aggregate owe us the following balances:

- Approximately \$1.9 million in trade receivables, of which \$0.5 million is included in pre-petition filings of Chapter 11 bankruptcies.
- Approximately \$4.9 million in various collateralized notes receivables and loans, of which \$1.0 million is included in pre-petition filings of Chapter 11 bankruptcies. This balance includes \$4.2 million of previously unamortized key money that was converted to notes receivable upon termination of the related franchise agreements.
- Approximately \$0.5 million in unamortized key money contract assets, all of which is included in pre-petition filings of Chapter 11 bankruptcies.

The collateralized loans are secured by the property purchased with their proceeds. All outstanding receivables, loans, and key money assets are collateralized by an equity interest in one of the leaseholds as well as a personal guarantee of the owner. Given a portion of the franchises continue to have active franchise license agreements with us and given the estimated value of the associated collateral, we have concluded that \$6.4 million of the total \$7.2 million of contract related balances continue to be recoverable. As such, we have recognized an allowance of \$0.8 million of pre-petition contract balances. These include \$0.3 million of accounts receivable, \$0.1 million of collateralized notes receivables and loan, and \$0.4 million of unamortized key money. The \$0.8 million allowance was recognized through bad debt expense included in *Selling, general, administrative and other expenses* on the Consolidated Statements of Comprehensive Income (Loss). We will continue to monitor the facts and circumstances surrounding this matter. If more information becomes available in subsequent periods, it could impact our conclusion on the collectability of these balances and on the Company's future results of operations.

We recognized \$1.2 million and \$0.9 million of royalty income from these franchisees during the years ended December 31, 2019 and 2018, respectively.

## 8. Debt and Line of Credit

The current and noncurrent portions of long-term debt as of December 31, 2019 and 2018 are as follows (in thousands):

	December 31,			
	2019		2018	
	Current	Noncurrent	Current	Noncurrent
Line of Credit	\$ —	\$ 10,000	\$ —	\$ 10,000
Senior Secured Term Loan	—	—	—	9,355
RL Venture - Olympia	—	5,600	—	—
RLH Atla Venture	—	—	9,225	—
RLH DC Venture (PWB)	—	—	15,943	—
RLH DC Venture (CPBF)	17,648	—	—	—
<b>Total debt</b>	<b>17,648</b>	<b>15,600</b>	<b>25,168</b>	<b>19,355</b>
Unamortized debt issuance costs	(664)	(24)	(112)	(241)
<b>Long-term debt net of debt issuance costs</b>	<b>\$ 16,984</b>	<b>\$ 15,576</b>	<b>\$ 25,056</b>	<b>\$ 19,114</b>

The collateral for each of the borrowings within the joint venture entities is the assets and proceeds of each respective entity. Each of our debt agreements contain customary reporting, financial and operating covenants. We were in compliance with all of the financial covenants of our debt agreements at December 31, 2019, unless further described below.

### *Senior Secured Term Loan and Line of Credit*

In May 2018, RLH Corporation and certain of its direct and indirect wholly-owned subsidiaries entered into a credit agreement with Deutsche Bank AG New York Branch (DB), Capital One, National Association and Raymond James Bank, N.A., as lenders and DB as the administrative agent (DB Credit Agreement). The DB Credit Agreement provided for a \$30.0 million senior secured term loan facility (Senior Secured Term Loan) and a \$10.0 million senior secured revolving credit facility (Line of Credit). The principal amount of the Senior Secured Term Loan was distributed at closing to fund the KFS acquisition. In August 2018, we amended the agreement in response to a default on the RL Baltimore loan (described below).

The loan agreement includes customary requirements for lender approval of annual operating and capital budgets, under certain conditions. It also includes customary events of default, cross-default provisions, and restrictions on payment of dividends. Our obligations under the DB Credit Agreement are (i) guaranteed by all of our direct and indirect wholly-owned subsidiaries, and (ii) secured by all of the present and after-acquired accounts, inventory, equipment, intellectual property, contractual rights and other tangible or intangible assets of RLH Corporation and the subsidiary guarantors.

In August 2018, we deposited \$20.6 million from asset sale proceeds and related joint venture distributions into a cash collateral account. The account is controlled by DB, on behalf of the lenders, and the balance is required by the debt agreement to be applied against the outstanding principal balance of the Senior Secured Term Loan at the lender's discretion. We subsequently used these funds to make a prepayment on the balance outstanding under the Senior Secured Term Loan. In March 2019, we transferred approximately \$4.2 million, which comprises a portion of the net proceeds received from the RL Venture Loans (described below), as calculated and required by the provisions of the Senior Secured Term Loan, into the cash collateral account controlled by the lender. This balance was applied against the outstanding principal balance in April 2019. In September 2019, we made a voluntary prepayment on the Senior Secured Term Loan of \$1.0 million. In the fourth quarter of 2019, using the net proceeds from the sales of our Hotel RL Salt Lake City joint venture property and Red Lion Hotel Atlanta International Airport joint venture property, we repaid the remaining outstanding principal balance of \$4.2 million. The Senior Secured Term Loan is no longer outstanding as of December 31, 2019. Due to the early repayments and extinguishment of this debt, we recognized a *Loss on early retirement of debt* of \$0.2 million.

In August 2018, we also drew the full \$10.0 million available to us on the Line of Credit. This amount remains outstanding as of December 31, 2019 and we have no further borrowing capacity through the Line of Credit.

The credit commitment matures in May 2023. Outstanding amounts under the Line of Credit will bear interest at our election of 1-month, 2-month, 3-month, or 6-month LIBOR plus 3.00% with interest payable at the end of each elected 1-month, 2-month, 3-month, or 6-month elected term. As of December 31, 2019 we have elected a 1-month LIBOR rate resulting in an interest rate of 4.9%.

### *RL Venture - Salt Lake City*

In March 2019, RL Salt Lake, LLC, a subsidiary of RL Venture, executed a secured debt agreement with Umpqua Bank for a term loan with a principal balance of \$11.0 million. The loan was fully secured by the Hotel RL Salt Lake City property. The loan had a maturity date of March 18, 2021 and a variable interest rate of LIBOR plus 2.25%, payable monthly. The borrower had the option to exercise two six-month extensions upon maturity of the loan. There were no principal payment requirements prior to the maturity date and the loan included a financial covenant to be calculated semi-annually in which the property must maintain a minimum debt service coverage ratio of not less than 1.6 to 1.0. We incurred approximately \$54,000 of debt discounts and debt issuance costs in connection with the issuance of the loan. In December 2019, we sold the Hotel RL Salt Lake City joint venture property for \$33.0 million. Using the proceeds from the sale, RL Venture repaid the \$11.0 million outstanding principal balance under the loan agreement. This debt is no longer outstanding as of December 31, 2019. Due to the early extinguishment of this debt, we recognized a *Loss on early retirement of debt* of \$0.1 million.

### *RL Venture - Olympia*

In March 2019, RL Olympia, LLC, a subsidiary of RL Venture, executed a secured debt agreement with Umpqua Bank for a term loan with a principal balance of \$5.6 million. The loan is fully secured by the Hotel RL Olympia property. The loan has a maturity date of March 18, 2021 and a variable interest rate of LIBOR plus 2.25%, payable monthly. The borrower has the option to exercise two six-month extensions upon maturity of the loan. There are no principal payment requirements prior to the maturity date and the loan includes a financial covenant to be calculated semi-annually in which the property must maintain a minimum debt service coverage ratio of not less than 1.6 to 1.0. We incurred approximately \$33,000 of debt discounts and debt issuance costs in connection with the issuance of the loan.

### *RLH Atla Venture*

In September 2015, RLH Atlanta obtained a mortgage loan from PFP Holding Company IV LLC ("PFP"), an affiliate of Prime Finance, secured by a hotel adjacent to the Atlanta International Airport, which opened in April 2016 as the Red Lion Hotel Atlanta International Airport. The initial principal amount of the loan was \$6.0 million, and the lender agreed to advance an additional \$3.4 million to cover expenses related to improvements to the hotel, which we drew during the first quarter of 2016.

In September 2019, RLH Atlanta executed an amendment to the existing mortgage loan with PFP which extended the maturity date from September 9, 2019 to November 9, 2019. In connection with the amendment, we paid \$1.0 million of principal balance and incurred approximately \$81,000 of debt discounts and debt issuance costs. As the amendment represents a modification to the original debt, these costs were amortized to interest expense through the extended maturity date of November 9, 2019. On November 7, 2019, RLH Atlanta executed an additional amendment, which extended the maturity date from November 9, 2019 to January 9, 2020. In connection with the amendment, we paid \$0.5 million of principal balance and incurred approximately \$40,000 of debt discounts and debt issuance costs. In November 2019, we sold the Red Lion Hotel Atlanta International Airport for \$12.3 million. Using the proceeds from the sale, RLH Atlanta repaid the \$8.2 million outstanding principal balance under the loan agreement with PFB. This debt is no longer outstanding as of December 31, 2019.

#### *RLH DC*

In October 2015, RLH DC obtained a mortgage loan from Pacific Western Bank secured by the Hotel RL Washington DC. The initial principal amount of the loan was \$15.2 million, and the lender agreed to advance an additional \$2.3 million to cover expenses related to improvements to the hotel, of which we drew \$1.5 million during the year ended December 31, 2016.

In May 2019, RLH DC executed a new mortgage loan agreement with CP Business Finance I, LP ("RLH DC Venture - CPBF"), secured by the Hotel RL Washington DC and a \$10.5 million principal guarantee by RLH Corporation. The initial principal amount of the loan was \$16.5 million. The proceeds from the loan were immediately used to pay off the existing mortgage loan on the property held by Pacific Western Bank, which had an outstanding principal balance of \$15.9 million at the time of closing.

The RLH DC Venture - CPBF loan had an initial maturity date of June 21, 2019, with a first extension option through May 31, 2020 that was exercised in June 2019, and a second extension option through May 31, 2021. The RLH DC Venture - CPBF has a cash interest rate of 7.0% in addition to PIK interest of 3.0% through May 31, 2020, which increases to 7.0% if the second extension option is exercised.

There was a fee of \$330,000 to exercise the first extension option and there is a fee of \$825,000 plus a required \$2.0 million principal pay down to exercise the second extension option. The RLH DC Venture - CPBF loan may be paid off in full prior to maturity at any point. The RLH DC Venture - CPBF loan contains an exit fee equal to 5.0% of the outstanding principal balance if the loan is paid off prior to May 31, 2020, or an exit fee equal to 4.0% of the outstanding principal balance if the loan is paid off between June 1, 2020 and May 31, 2021. Additionally, if the loan is paid down prior to May 31, 2020, a prepayment premium must be paid. The prepayment premium is equal to the remaining cash and PIK interest that would have been payable from the prepayment date through May 31, 2020.

As the exit fee is payable regardless of loan repayment prior to or at maturity, we have accrued the projected exit fee of \$851,000 as part of the outstanding debt balance with an offsetting debt discount. Inclusive of the accrued exit fee, we have incurred cumulative debt discounts and debt issuance costs of \$1.4 million, which will be amortized to interest expense through the first extended maturity date of May 31, 2020.

The loan agreement contains customary requirements for lender approval of annual operating and capital budgets, under certain conditions. It also includes customary events of default as well as financial covenants for maintaining a minimum property EBITDA, a minimum consolidated fixed coverage ratio for RLH, a maximum consolidated total net leverage ratio for RLH, and a cross default provision with our Line of Credit and Senior Secured Term Loan. CP Business Finance I, LP, the lender of the RLH DC - CPBF loan, is an affiliate of Columbia Pacific Opportunity Fund, LP, who currently holds 500,000 shares of RLH common stock. Additionally, Alexander B. Washburn, who served as a member of our Board of Directors from May 2015 to April 2019, is one of the managing members of Columbia Pacific Advisor, LLC, which serves as the investment manager of Columbia Pacific Opportunity Fund, LP.

On February 7, 2020, we sold the Hotel RL Washington DC for \$16.4 million. Using proceeds from the sale, together with the release of \$2.3 million in a loan reserve held by CP Business Finance I, LP, RLH DC repaid the remaining outstanding principal balance and accrued exit fee under the RLH DC Venture - CPBF loan agreement of \$17.7 million, plus a prepayment penalty of \$0.6 million.

#### *RL Baltimore*

In April 2015, RL Baltimore obtained a mortgage loan from PFP secured by the Hotel RL Baltimore Inner Harbor. The initial principal amount of the loan was \$10.1 million, and the lender agreed to advance an additional \$3.2 million to cover expenses related to improvements to the hotel, which we drew during the year ended December 31, 2015.

In September 2018, RLH Corporation, through our wholly owned subsidiary RLH Baltimore Loan Acquisition LLC (RLH Balt Acquisition), purchased the outstanding promissory note, in the original principal amount of \$13.3 million (Baltimore Note) for a total purchase price of \$13.6 million, resulting in a *Loss on early retirement of debt* of \$0.1 million, from the write off of unamortized debt issuance costs. RL Baltimore is a wholly owned subsidiary of RLS Balt Venture LLC, a consolidated subsidiary of RLH Corporation in which, at the time of the transaction, we held a 73% interest.

On October 25, 2018, RLH Corporation signed an agreement with Shelbourne Falcon II, which dissolved the joint venture relationship and gave RLH Corporation 100% ownership of RLS Balt Venture LLC.

#### *RL Venture*

In January 2015, RL Venture Holding LLC, a wholly-owned subsidiary of RL Venture entered into a loan agreement with Pacific Western Bank, which was secured by the hotels owned by RL Venture. The original principal amount of the loan was \$53.8 million with an additional \$26.2 million to be drawn over a two-year period to cover improvements related to the original hotels owned by the subsidiary.

In 2018, nine of the RL Venture properties were sold for \$116.5 million. Using proceeds from the hotel sales and restricted cash associated with the debt, during the year ended December 31, 2018, RL Venture repaid the full \$73.2 million principal outstanding under its loan agreement with Pacific Western Bank. Due to the extinguishment of this debt, we recognized a *Loss on early retirement of debt* of \$0.7 million, from the write off of unamortized debt issuance costs.

Contractual maturities for long-term debt outstanding at December 31, 2019, for the next five years, are summarized by the year as follows (in thousands):

<b>Years Ending December 31,</b>	<b>Amount</b>
2020	\$ 17,648
2021	5,600
2022	—
2023	10,000
2024	—
Thereafter	—
Total	<u>\$ 33,248</u>

## **9. Operating and Finance Lease Commitments**

We have both operating and finance leases in the normal course of business. The operating leases relate to four of our company operated hotel properties and our headquarters. We are obligated under finance leases for certain hotel equipment at our company operated hotel locations. The finance leases typically have a five-year term. We have elected the practical expedient so that leases with an initial term of 12 months or less are not recorded on the balance sheet.

Balance sheet information related to our leases is included in the following table (in thousands):

<b>Operating Leases</b>	<b>December 31, 2019</b>
Operating lease right-of-use assets	<u>\$ 48,283</u>
Operating lease liabilities, due within one year	\$ 4,809
Operating lease liabilities, due after one year	46,592
Total operating lease liabilities	<u>\$ 51,401</u>

<b>Finance Leases</b>	<b>December 31, 2019</b>
Property and equipment	\$ 298
Less accumulated depreciation	(168)
Property and equipment, net	<u>\$ 130</u>
Other accrued liabilities	\$ 74
Deferred income and other long-term liabilities	76
Total finance lease liabilities	<u>\$ 150</u>

The components of lease expense during the year ended December 31, 2019 are included in the following tables (in thousands):

	<b>Financial Statement Line Item(s)</b>	<b>Year Ended December 31, 2019</b>
Operating lease expense	Selling, general, administrative and other expenses, and Company operated hotels	\$ 4,639
Short-term lease expense	Selling, general, administrative and other expenses, and Company operated hotels	793
<b>Finance lease expense</b>		
Amortization of finance right-of-use assets	Depreciation and amortization	135
Interest on lease liabilities	Interest expense	29
Total finance lease expense		<u>164</u>
Total lease expense		<u>\$ 5,596</u>

Supplemental cash flow information for our leases is included in the following table (in thousands):

<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	<b>Year Ended December 31, 2019</b>
Cash used in operating activities for operating leases	\$ 4,744
Cash used in operating activities for finance leases	29
Cash used in financing activities for finance leases	137

During the year ended December 31, 2019, we recognized ROU assets of \$181,000 and associated operating lease liabilities of \$202,000 upon commencement of leases for space in our Spokane office. There were no new finance assets or associated liabilities during the year ended December 31, 2019.

Information related to the weighted average remaining lease terms and discount rates for our leases as of December 31, 2019 is included in the following table:

	<b>December 31, 2019</b>
<b>Weighted average remaining lease term (in years)</b>	
Operating leases	69
Finance leases	3
<b>Weighted average discount rate</b>	
Operating leases	7.2 %
Finance leases	11.9 %

The future maturities of lease liabilities at December 31, 2019 are as indicated below (in thousands):

Years Ending December 31,	Operating Leases	Finance Leases
2020	\$ 4,809	\$ 74
2021	4,813	56
2022	4,776	38
2023	4,739	11
2024	3,885	—
Thereafter	244,959	—
Total lease payments	267,981	179
Less: imputed interest	216,580	29
Total liability	\$ 51,401	\$ 150

The future maturities of lease liabilities in the table above do not differ materially from future minimum rental payments under the previous leasing standard.

Two leases comprise \$243.0 million of future minimum lease payments beyond 2024. One is a ground lease for our Hotel RL Washington DC property with a term through 2080 and the other is a ground lease for our Red Lion Anaheim property with a lease term through 2021, but includes renewal options through 2106 that are reasonably assured to be exercised.

Prior to the adoption of Topic 842 on January 1, 2019, total rent expense from continuing operations under leases for the year ended December 31, 2018 was \$5.8 million which was recorded in *Company operated hotels* and *Selling, general, administrative and other expenses* on our Consolidated Statements of Comprehensive Income (Loss).

## 10. Commitments and Contingencies

On September 26, 2018, Radisson Hotels International, Inc. filed a complaint against RLH Corporation and our subsidiary Red Lion Hotels Franchising, Inc. in the United States District Court for the Eastern District of Washington. The complaint alleges tortious interference with agreements between Radisson and several franchisees controlled by Inner Circle Investments and seeks damages in an undetermined amount. RLH Corporation believes this complaint is without merit and we intend to defend it vigorously.

On October 31, 2018, the Company's lease for the Red Lion River Inn expired. The landlord filed a lawsuit against the Company on January 24, 2019 in Spokane Superior Court, alleging breach of the lease agreement and tort claims relating to the condition of the hotel. The Company filed its Answer on January 25, 2019, denying all allegations and asserting various affirmative defenses. RLH Corporation believes this complaint is without merit and we intend to defend it vigorously.

At any given time we are subject to claims and actions incidental to the operations of our business. During the second quarter of 2019, we accrued approximately \$952,000 for a settlement over a wage dispute with former hotel employees related to the calculation of pay for certain rest, break, meal, and other periods that are required under California law.

Along with many of its competitors, the Company has been named as a defendant in litigation matters filed in state and federal courts, alleging statutory and common law claims related to purported incidents of sex trafficking at certain franchised hotel facilities. As of February 21, 2020, the Company is aware of approximately 7 cases filed naming the Company. The Company is in various stages of seeking voluntary dismissal on the basis that the Company did not own, operate or manage the hotels at issue, and intends to vigorously defend the lawsuits.



## 11. Stock Based Compensation

### Stock Incentive Plans

The 2015 Stock Incentive Plan (2015 Plan) authorizes the grant or issuance of various option and other awards including restricted stock units and other stock-based compensation. The 2015 Plan was approved by our shareholders in 2015, and amended in 2017, and as amended provides for awards of 2.9 million shares. As of December 31, 2019, there were 1.1 million shares of common stock available for issuance pursuant to future stock option grants or other awards under the 2015 Plan.

Stock based compensation expense reflects the fair value of stock based awards measured at grant date, including an estimated forfeiture rate, and is recognized over the relevant service period. For the years ended December 31, 2019 and 2018, stock-based compensation expense is as follows:

	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
Stock options	\$ 21	\$ 82
Restricted stock units	1,625	2,887
Performance stock units	(470)	442
Unrestricted stock awards	564	498
Employee Stock Purchase Plan	40	46
Total stock-based compensation	<u>\$ 1,780</u>	<u>\$ 3,955</u>

### Stock Options

Stock options issued are valued based upon the Black-Scholes option pricing model and we recognize this value as an expense over the periods in which the options vest. Use of the Black-Scholes option-pricing model requires that we make certain assumptions, including expected volatility, forfeiture rate, risk-free interest rate, expected dividend yield and expected life of the options, based on historical experience. Volatility is based on historical information with terms consistent with the expected life of the option. The risk free interest rate is based on the quoted daily treasury yield curve rate at the time of grant, with terms consistent with the expected life of the option. There were no stock options granted in 2019 or 2018. All options outstanding as of December 31, 2019 were forfeited on February 8, 2020.

A summary of stock option activity for the year ended December 31, 2019, is as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Balance, January 1, 2019	81,130	\$ 8.20
Options forfeited	(20,282)	\$ 8.20
Balance, December 31, 2019	<u>60,848</u>	<u>\$ 8.20</u>
Exercisable, December 31, 2019	<u>60,848</u>	<u>\$ 8.20</u>

Additional information regarding stock options outstanding and exercisable as of December 31, 2019, is presented below.

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Expiration Date <sup>(1)</sup>	Weighted Average Exercise Price	Aggregate Intrinsic Value <sup>(2)</sup>	Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value <sup>(2)</sup>
\$8.20	60,848	0.10	2026	\$ 8.20	\$ —	60,848	\$ 8.20	\$ —

<sup>(1)</sup> The original grant date expiration of the outstanding options was 2026. However, all options outstanding as of December 31, 2019 were forfeited on February 8, 2020 after the expiration of the permitted exercise period following employee termination.

<sup>(2)</sup> The aggregate intrinsic value, in thousands, is before applicable income taxes and represents the amount option recipients would have received if all options had been exercised on the last trading day of 2019, based upon our closing stock price of \$3.73.

### *Restricted Stock Units, Shares Issued as Compensation*

During 2019 and 2018, we granted 361,360 and 514,512 unvested restricted stock units, respectively, to executive officers and other key employees, which typically vest 25% each year for four years on each anniversary of the grant date. While all of the shares are considered granted, they are not considered issued or outstanding until vested. As of December 31, 2019 and 2018, there were 459,070 and 1,288,714 unvested restricted stock units outstanding, respectively.

A summary of restricted stock unit activity for the year ended December 31, 2019, is as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Balance, January 1, 2019	1,288,714	\$ 8.47
Granted	361,360	\$ 8.24
Vested	(736,963)	\$ 7.51
Forfeited	(454,041)	\$ 9.31
Balance, December 31, 2019	<u>459,070</u>	<u>\$ 9.03</u>

We issued 736,963 shares of common stock to employees in 2019 as their restricted stock units vested. Under the terms of the 2006 and 2015 plans and upon issuance, we authorized a net settlement of distributable shares to employees after consideration of individual employees' tax withholding obligations, at the election of each employee. The fair value of restricted stock that vested during 2019 and 2018 was approximately \$5.9 million and \$2.2 million, respectively.

During 2019 and 2018, we recognized approximately \$1.6 million, and \$2.9 million, respectively, in compensation expense related to these grants, and expect to recognize an additional \$2.5 million in compensation expense over the remaining weighted average vesting periods of approximately 19 months.

### *Performance Stock Units, Shares Issued as Compensation*

During 2019 and 2018, we granted 218,437 and 158,431 performance stock units (PSUs), respectively, to certain of our executives. These PSUs include both performance vesting conditions and a service vesting condition. The performance vesting conditions are based on an annual earnings goal tied to Adjusted EBITDA. Each performance condition has a minimum, a target and a maximum share amount based on the level of attainment of the performance condition with payouts of 25% to 50% at the minimum, 100% at the target, and 160% at the maximum. The service period for each grant is three years. Compensation expense, net of estimated forfeitures, is calculated based on the estimated attainment of the performance conditions during the performance period and recognized on a straight-line basis over the performance and service periods. Based on these assumptions, PSU compensation (recovery) expense recognized for the years ended December 31, 2019 and 2018 was \$(0.5) million and \$0.4 million, respectively. The remaining compensation expense related to PSUs of approximately \$15,000 will be recognized over the next 3 months.

A summary of performance stock unit activity based on target shares for the year ended December 31, 2019, is as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Balance, January 1, 2019	209,201	\$ 8.23
Granted	218,437	\$ 8.08
Change in units based on performance conditions	(114,789)	\$ 8.48
Forfeited	(287,053)	\$ 8.18
Balance, December 31, 2019	<u>25,796</u>	<u>\$ 6.45</u>

### Unrestricted Stock Awards

Unrestricted stock awards are granted to members of our Board of Directors as part of their compensation. Awards are fully vested and expense is recognized when granted. The fair value of unrestricted stock awards is the market close price of our common stock on the date of the grant. During 2019 and 2018, we recognized approximately \$0.6 million and \$0.5 million, respectively, in compensation expense related to these grants.

The following table summarizes unrestricted stock award activity for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Shares of unrestricted stock granted	76,224	46,068
Weighted average grant date fair value per share	\$ 7.41	\$ 10.81

### Employee Stock Purchase Plan

The employee stock purchase plan (ESPP) was approved in 2008, and amended in 2017, and as amended authorizes 600,000 shares for purchase by eligible employees under the ESPP plan. As of December 31, 2019, 282,739 shares were available for grant. Eligible employees may purchase shares of our common stock at a 15% discount through payroll deductions. No employee may purchase more than \$25,000 worth of shares, or more than 10,000 total shares, in any calendar year. As allowed under the ESPP, a participant may elect to withdraw from the plan, effective for the purchase period in progress at the time of the election with all accumulated payroll deductions returned to the participant at the time of withdrawal. During 2019 and 2018, there were 34,990 and 27,118 shares, respectively, issued, and approximately \$40,000 and \$46,000 was recognized in compensation expense related to the discount associated with the plan in each year, respectively.

	<u>2019</u>	<u>2018</u>
Shares of stock sold to employees	34,990	27,118
Weighted average fair value per ESPP award	\$ 6.46	\$ 7.18

### Warrants

In January 2015, in connection with Shelbourne Falcon's purchase of equity interests in RL Venture, we issued Shelbourne warrants to purchase 442,533 shares of common stock. The warrants have a five-year term from the date of issuance and a per share exercise price of \$6.78. The warrants have been classified as equity due to required share settlement upon exercise. Accordingly, the estimated fair value of the warrants was recognized in additional paid in capital upon issuance, and we do not recognize subsequent changes in fair value in our financial statements. As of December 31, 2019 all warrants were still outstanding. However, all warrants expired without being exercised in January 2020.

## 12. Earnings (Loss) Per Share

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted net income (loss) per share computations for the years ended December 31, 2019 and 2018 (in thousands, except per share amounts):

	<u>Years Ended December 31,</u>	
	<u>2019</u>	<u>2018</u> (Revised)
<b>Numerator - basic and diluted:</b>		
Net income (loss)	\$ (20,973)	\$ 14,467
Net (income) loss attributable to noncontrolling interest	1,944	(13,129)
Net income (loss) attributable to RLH Corporation	(19,029)	1,338
<b>Denominator:</b>		
Weighted average shares - basic	24,931	24,392
Weighted average shares - diluted	24,931	25,477
Earnings (loss) per share - basic	\$ (0.76)	\$ 0.05
Earnings (loss) per share - diluted	\$ (0.76)	\$ 0.05

The following table presents options to purchase common shares, restricted stock units outstanding, performance stock units outstanding and warrants to purchase common shares included in the earnings per share calculation, as well as the amount excluded from the dilutive earnings per share calculation if they were considered antidilutive, for the years ended December 31, 2019 and 2018.

	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Stock Options <sup>(1)</sup></b>		
Dilutive awards outstanding	—	9,845
Antidilutive awards outstanding	60,848	71,285
Total awards outstanding	60,848	81,130
<b>Restricted Stock Units <sup>(2)</sup></b>		
Dilutive awards outstanding	—	800,201
Antidilutive awards outstanding	459,070	488,513
Total awards outstanding	459,070	1,288,714
<b>Performance Stock Units <sup>(3)</sup></b>		
Dilutive awards outstanding	—	108,889
Antidilutive awards outstanding	25,796	100,312
Total awards outstanding	25,796	209,201
<b>Warrants <sup>(4)</sup></b>		
Dilutive awards outstanding	—	166,121
Antidilutive awards outstanding	442,533	276,412
Total awards outstanding	442,533	442,533

<sup>(1)</sup> All stock options for the year ended December 31, 2019 were anti-dilutive as a result of the RLH Corporation weighted average share price during the reporting period, in addition to the net loss in 2019.

<sup>(2)</sup> Restricted stock units were anti-dilutive for the year ended December 31, 2019 due to the net loss attributable to RLH Corporation in the reporting period. If we had reported net income for the year ended December 31, 2019 then 254,574 weighted average restricted stock units would have been dilutive.

<sup>(3)</sup> Certain performance stock unit grants were antidilutive for the year ended December 31, 2019 as their respective targets had not been achieved as of the end of the year, in addition to the net loss in 2019. If we had reported net income and the performance targets been met for the year ended December 31, 2019, then 81,613 weighted average performance stock units would have been dilutive.

<sup>(4)</sup> For the year ended December 31, 2019 all warrants were anti-dilutive due to the net loss attributable to RLH Corporation in the reporting period. If we had reported net income for the year ended December 31, 2019 then 35,873 warrants would have been dilutive.

### 13. Income Taxes

Major components of the income tax expense for the years ended December 31, 2019 and 2018 are as follows (in thousands):

	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Current:</b>		
Federal expense (benefit)	\$ 30	\$ 424
State expense (benefit)	163	718
Foreign expense (benefit)	89	88
Deferred expense (benefit)	(29)	(1,301)
Income tax expense (benefit)	<u>\$ 253</u>	<u>\$ (71)</u>

The differences from continuing operations between income taxes expected at the U.S. federal statutory income tax rate of 21% and the reported income tax (benefit) expense are summarized as follows (in thousands, except percentages):

	<b>Years Ended December 31,</b>			
	<b>2019</b>		<b>2018</b> (Revised)	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
(Benefit) expense provision at federal statutory rate	\$ (4,351)	-21.0 %	\$ 3,023	21.0 %
State/foreign tax (benefit) expense	(325)	-1.6 %	90	0.6 %
Effect of tax credits	5	— %	(490)	-3.4 %
Non-controlling interest	408	2.0 %	(2,804)	-19.4 %
Other	713	3.4 %	134	0.9 %
Valuation allowance	3,803	18.4 %	(24)	-0.2 %
<b>Income tax expense (benefit) from continuing operations</b>	<b>\$ 253</b>	<b>1.2 %</b>	<b>\$ (71)</b>	<b>-0.5 %</b>

Significant components of the net deferred tax assets and liabilities from continuing operations at December 31, 2019 and 2018, are as follows (in thousands):

	<b>December 31,</b>			
	<b>2019</b>		<b>2018</b> (Revised)	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Property and equipment	\$ 1,946	\$ —	\$ 1,564	\$ —
Brand name	—	2,336	—	4,211
Goodwill	2,345	—	2,813	—
Prepaid assets	—	1,082	—	985
Allowance for doubtful accounts	1,345	—	587	—
RL Venture	957	—	—	75
Stock-based compensation	372	—	1,245	—
Tax credit carryforwards	2,691	—	2,696	—
Federal and state net operating losses	1,965	—	682	—
Leasing liabilities	9,758	—	—	—
Leasing assets	—	9,499	—	—
Other receivables	500	—	1,080	—
Other	2,993	—	2,727	—
Valuation allowance	(12,698)	—	(8,895)	—
<b>Total</b>	<b>\$ 12,174</b>	<b>\$ 12,917</b>	<b>\$ 4,499</b>	<b>\$ 5,271</b>

At December 31, 2019 we had federal operating loss carryforwards of \$5.5 million. At December 31, 2018, we had used the federal operating loss in its entirety. The federal operating loss carryforwards can be carried forward indefinitely, but are subject to annual deduction limitations under the *2017 Tax Cuts and Jobs Act*. At December 31, 2019 and 2018, we had state gross operating loss carryforwards of approximately \$13.3 million and \$10.6 million, respectively. We had federal and state tax credit carryforwards of approximately \$2.7 million at December 31, 2019 and 2018. The state net operating loss carryforwards will expire beginning in 2020; the tax credit carryforwards will begin to expire in 2024.

We assess the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. As of December 31, 2019, the total valuation allowance of \$12.7 million was recorded to reduce deferred tax assets to an amount that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as forecasted taxable income and our projections for growth. Should we determine we will be able to realize additional deferred tax assets, the tax benefits relating to any reversal of the valuation allowance will be accounted for as a reduction of income tax expense.

A summary of our valuation allowance activity as it relates to continuing operations for the years ended December 31 is as follows (in thousands):

	<b>Valuation Allowance<sup>(1)</sup> (Revised)</b>
Balances, December 31, 2017	\$ 8,048
Increase during period	847
Balances, December 31, 2018	8,895
Increase during period	3,803
Balances, December 31, 2019	\$ 12,698

<sup>(1)</sup> The change in the valuation allowance shown in this table does not correspond to the annual valuation allowance amount shown in the rate reconciliation table for 2018 due to items required to be recognized through equity.

We classify any interest expense and penalties related to tax positions and any interest income on tax overpayments as components of income tax expense.

We recognize the financial statement effect of a tax position when it is more likely than not to be sustained on the basis of its technical merits. We have no material uncertain tax positions at December 31, 2019 and 2018, and do not anticipate a significant change in any unrecognized tax benefits over the next twelve months. Accordingly, we have not provided for any unrecognized tax benefits or related interest and penalties. With limited exception, we are no longer subject to U.S. federal, state and local income tax examinations by taxing authorities for years prior to 2016. Additionally, the year 2012 is subject to examination, to the extent that net operating loss and income tax credit carryforwards from that year were utilized in 2014 and later years.

#### 14. Fair Value

Applicable accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We measure our assets and liabilities using inputs from the Level 1, Level 2 and Level 3 of the fair value hierarchy.

*Cash, Restricted Cash* and *Accounts Receivable* carrying values approximate fair value due to the short-term nature of these items.

We estimate the fair value of our notes receivable using expected future payments discounted at risk-adjusted rates, both of which are Level 3 inputs. We estimate the fair value of our long-term debt and capital lease obligations using expected future payments discounted at risk-adjusted rates, both of which are Level 3 inputs. The fair values provided below are not necessarily indicative of the amounts we or the debt holders could realize in a current market exchange. In addition, potential income tax ramifications related to the realization of gains and losses that would be incurred in an actual sale or settlement have not been taken into consideration. Estimated fair values of financial instruments (in thousands) are shown in the table below.

	<b>December 31,</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Financial assets:</b>				
Notes receivable	\$ 5,709	\$ 5,709	\$ 2,103	\$ 2,103
<b>Financial liabilities:</b>				
Total debt	\$ 33,248	\$ 32,737	\$ 44,523	\$ 43,880
Total finance lease obligations	150	150	378	378

#### 15. Related Party Transactions

Our current joint ventures RL Venture, RLS DC Venture and RLS Atla Venture and our former joint venture, RLS Balt Venture have agreed to pay to Shelbourne an investor relations fee each month equal to 0.50% of its total aggregate revenue. Shelbourne is the entity that leads Shelbourne Falcon, Shelbourne Falcon II, Shelbourne Falcon III and Shelbourne Falcon IV, the minority interest holder in these joint ventures. The amount Shelbourne Capital earned from all four joint ventures during the years ended

December 31, 2019 and 2018 totaled \$69,000 and \$211,000, respectively. Columbia Pacific Opportunity Fund, LP (CP), previously one of our largest shareholders, is an investor in Shelbourne Falcon, our minority partner in RL Venture. For the years ended December 31, 2019 and 2018, Shelbourne Capital earned \$50,000 and \$161,000, respectively, from RL Venture. We did not pay any investor relations fees to Shelbourne Capital related to the RLS Balt Venture after October 2018.

On April 17, 2018, we entered into a commitment letter with CP that described the general terms and conditions for a single advance term loan of \$20 million. Upon execution of the commitment letter, we paid CP a non-refundable commitment fee of \$200,000, and agreed to reimburse CP for all reasonable out-of-pocket costs and expenses, including reasonable legal fees, whether or not the loan was funded. The commitment was not used and terminated on May 31, 2018. At the time of the transaction, CP held beneficial ownership of 1,510,105 shares of our common stock, and 442,533 shares of common stock subject to a warrant held by an entity in which an affiliate of CP holds an indirect interest. CP is also an investor in Shelbourne Falcon, which holds a 45% interest in RL Venture. The warrants expired without being exercised in January 2020.

Effective March 2016, our wholly owned subsidiary, RL Management entered into a one-year contract to manage the Hudson Valley Resort and Spa, a hotel located in Kerhonkson, New York. Following the initial one-year term, we continued to manage the property on a month-to-month basis. The hotel is owned by HNA Hudson Valley Resort & Training Center LLC, an affiliate of HNA RLH Investments LLC, previously one of our largest shareholders, and is controlled by HNA Group North America LLC, for which Enrico Marini Fichera, previously one of our directors, serves as the Head of Investments. Under that contract, our subsidiary was entitled to a monthly management fee equal to \$8,333 or three percent of the hotel's gross operating revenues, whichever is greater. During the year ended December 31, 2018 we recognized management fee revenue from HNA Hudson Valley Resort & Training Center LLC of \$75,000. On June 12, 2018, HNA RLH Investments LLC sold their common shares in RLH to a third party and Enrico Marini Fichera resigned from the Board effective June 18, 2018, no longer making them a related party. The contract with Hudson Valley Resort and Spa was terminated in September 2018.

On September 30, 2016, we completed our acquisition of the operating assets and assumption of certain liabilities relating to specified hotel brands and brand extensions from Thirty-Eight Street, Inc. ("TESI") and Vantage Hospitality Group, Inc. ("Vantage Hospitality"). From the date of the acquisition, our board appointed Bernard T. Moyle, as our Executive Vice President and Chief Operating Officer and Roger J. Bloss as our Executive Vice President and President of Global Development. Moyle and Bloss are shareholders of TESI and Vantage Hospitality.

Effective May 31, 2018, Messrs. Bloss and Moyle entered into consulting agreements through December 31, 2020, ending their employment with the Company and no longer making them a related party after the effective date. On May 21, 2018, the Company entered into a letter agreement ("Letter Agreement") and a First Amendment ("First Amendment") to the TESI and Vantage Hospitality purchase agreement. In accordance with the Letter Agreement and First Amendment, after the first anniversary of the closing date, we issued \$4.0 million in cash and 414,000 shares of the Company's common stock to TESI in January 2018. In October 2018, we settled the second and final portion of the Vantage contingent consideration in an aggregate amount of \$3.0 million in cash and 276,000 shares of the Company's common stock. The Company understands that Mr. Bloss and Mr. Moyle each own 50% of the outstanding common shares of TESI.

Messrs. Bloss and Moyle each additionally indirectly own a 5.7% equity interest in a limited liability company that owns the Lexington Hotel and Conference Center in Jacksonville, Florida. During the period ended May 31, 2018, the Company billed the property approximately \$161,000 for franchise fees and related services, including royalty and marketing. This hotel, along with the Lexington Inn & Suites, Daytona Beach and the ABVI Las Vegas, are managed by Cal-Vegas, Ltd. (Cal-Vegas), of which TESI (owned by Messrs. Bloss and Moyle) is the General Partner and holds a 2% general partner interest, and Mr. Moyle serves as the Chief Operating Officer and Chief Financial Officer. The Company and Cal-Vegas are not parties to any agreement with respect to these properties, as the management contracts are between Cal-Vegas and the Company's franchisees, who are unrelated third parties. Cal-Vegas, Ltd. is also the lessee of the ABVI Las Vegas hotel. Franchise fees billed by the Company to each of these properties for the period ended May 31, 2018 were as follows: Lexington Inn & Suites, Daytona Beach, \$35,000, and ABVI Las Vegas, \$1,000.

During the fourth quarter of 2018, we transitioned management of our company operated Hotel RL Baltimore Inner Harbor and Hotel RL Washington DC from RL Management, Inc., to HEI Hotels and Resorts, of which one of the members of our Board of Directors, Ted Darnall, is currently the Chief Executive Officer. Additionally, during the first quarter of 2019, management of our company operated hotel Red Lion Hotel Seattle Airport was also transitioned from RL Management, Inc. to HEI Hotels and Resorts. During the years ended December 31, 2019 and 2018, we paid \$1.1 million and \$22,000, respectively in management fees to HEI Hotels and Resorts for management of these properties.

On January 14, 2019, the Company announced the appointment of Julie Shiflett as Chief Financial Officer of RLH. Prior to this appointment, the Company paid consulting fees to NorthWest CFO, a consulting firm of which Ms. Shiflett is a Principal. During the years ended December 31, 2019 and 2018 we paid consulting fees of \$49,000 and \$394,000 to NorthWest CFO. The payments made in 2019 were for services rendered by NorthWest CFO in 2018. No services have been performed by NorthWest CFO on behalf of RLH subsequent to Ms. Shiflett being appointed Chief Financial Officer.

As noted in Note 8 *Debt and Line of Credit*, on May 31, 2019, we executed a mortgage loan with a principal and accrued exit fee of \$17.4 million with CP Business Finance I, LP, an affiliate of Columbia Pacific Opportunity Fund, LP, who currently holds 500,000 shares of RLH common stock. Additionally, Alexander B. Washburn, who served as a member of our Board of Directors from May 2015 to April 2019, is one of the managing members of Columbia Pacific Advisor, LLC, which serves as the investment manager of Columbia Pacific Opportunity Fund, LP.

## 16. Acquisitions and Dispositions

### Acquisitions

#### *Knights Inn Acquisition*

On May 14, 2018, RLH Franchising, Inc. completed the purchase of all of the issued and outstanding shares of capital stock of KFS, and the purchase of certain operating assets from, and assumption of certain liabilities relating to the business of franchising Knights Inn branded hotels to hotel owners from Wyndham Hotel Group Canada, ULC and Wyndham Hotel Group Europe Limited, pursuant to the Amended and Restated Purchase Agreement, dated May 1, 2018, for an aggregate purchase price of \$27.2 million. The purchase price was financed through borrowing under the DB Credit Agreement. See Note 8, *Debt and Line of Credit* for discussion of the DB Credit Agreement.

The acquisition of KFS was treated as a business combination under U.S. GAAP. The following reflects our purchase price allocation (in thousands):

	<b>Fair Value</b>
Current assets	\$ 1,288
Intangible assets	16,800
Goodwill	9,191
Total assets acquired	27,279
Current liabilities	30
Total liabilities acquired	30
Total net assets acquired	<u>\$ 27,249</u>

Current assets are comprised of \$4.6 million in contractual value of acquired receivables, less a fair value adjustment of \$3.3 million based on expected collectability.

Intangible assets acquired are as follows (in thousands):

	<b>Fair Value</b>	<b>Useful Life</b>
Brand names	\$ 7,700	Indefinite
Customer contracts	9,100	15 years
Total intangible assets	<u>\$ 16,800</u>	

In 2019, we recognized an impairment loss of \$1.3 million on our Knights Inn indefinite lived brand name. The carrying value of the intangible asset as of December 31, 2019 is \$6.4 million.

We recognized \$9.2 million in goodwill as the result of the acquisition, recorded within our franchise reporting segment. The goodwill is deductible for income tax purposes. The factors that make up the goodwill are primarily expected synergies from combining the operations of Knights Inn with our own.



The following table presents the revenues and earnings from Knights Inn's operations that are included in the Consolidated Statement of Comprehensive Income (Loss) for the year ended December 31, 2018 (in thousands):

	<b>Year Ended December 31, 2018</b>
Revenue	\$ 4,265
Net income (loss) from continuing operations before income taxes	2,874

The following supplemental pro forma results are based on the individual historical results of RLH Corporation and KFS, with adjustments to give effect to the combined operations as if the acquisition had been consummated on January 1, 2018 (in thousands, except per share data) (unaudited):

	<b>Year Ended December 31, 2018</b>
Revenue	\$ 138,478
Net income	17,017
Net income and comprehensive income attributable to RLH Corporation	3,887
Earnings per share attributable to RLH Corporation - basic	\$ 0.18
Earnings per share attributable to RLH Corporation - diluted	\$ 0.17

We recognized acquisition related expenses of \$2.2 million during the year ended December 31, 2018, and they are included within *Transaction and integration costs* on our Consolidated Statements of Comprehensive Income (Loss).

### **Dispositions**

#### *Company Operated Hotel Dispositions*

During the year ended December 31, 2018, we began execution of a hotel asset sales initiative consistent with our previously stated business strategy to focus on moving towards operations as primarily a franchise company, and disposed of nine hotels from our company operated hotels segment, comprising net assets of \$70.7 million, for cash proceeds of \$116.5 million. These dispositions resulted in a combined gain of \$40.7 million. During the year ended December 31, 2019, we disposed of two additional hotels from our company operated hotels segment, comprising net assets of \$37.0 million, for cash proceeds of \$45.3 million. These dispositions resulted in a combined gain of \$7.3 million. The dispositions in 2018 and 2019 did not meet the criteria for discontinued operations.

The following summarizes the results of operations for the 11 properties sold during 2019 and 2018 (in thousands):

	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Pre-tax income (loss)	\$ 4,750	\$ 36,780
Net (income) loss attributable to noncontrolling interest	(2,138)	(16,551)
Net income (loss) attributable to RLHC	\$ 2,612	\$ 20,229

Due to the various contingencies remaining in the non-binding purchase and sale agreements outstanding, at December 31, 2019 and 2018, we have no properties meeting the criteria to be classified as held for sale on our Consolidated Balance Sheets.

On February 7, 2020, we disposed of one additional hotel from our company operated hotels segment, the Hotel RL Washington DC, for cash proceeds of \$16.4 million. This property was subject to a non-binding purchase and sale agreement at December 31, 2019, but due to various contingencies, had not met the criteria to be classified as held for sale on our Consolidated Balance Sheets for the periods presented.

**EXHIBIT C**

**GUARANTY OF PERFORMANCE**


**GUARANTY OF PERFORMANCE**

For value received, **RED LION HOTELS CORPORATION**, a Washington corporation located at **TWO NEWTON PLACE, 255 WASHINGTON STREET, SUITE 230, NEWTON, MASSACHUSETTS 02458** (the “Guarantor”), absolutely and unconditionally guarantees the performance by **SONESTA RL HOTELS FRANCHISING INC.**, located at **TWO NEWTON PLACE, 255 WASHINGTON STREET, SUITE 230, NEWTON, MASSACHUSETTS 02458** (the “Franchisor”), of all of the obligations of Franchisor in accordance with the terms and conditions of the franchise registration in each state where the franchise is registered, and under its Franchise Agreement identified in its 2021 Franchise Disclosure Document, as it may be amended, and as that Franchise Agreement may be entered into with franchisees as amended, modified or extended from time to time. This guarantee continues in full force and effect until all obligations of the Franchisor under its franchise registrations and Franchise Agreements are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever first occurs. The Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive notice of Franchisor’s default. This guarantee is binding on the Guarantor and its successors and assignees.

The Guarantor signs this guarantee at Newton, Massachusetts on the 24th day of September, 2021.

**GUARANTOR:**

**RED LION HOTELS CORPORATION**

By:   
Name: Carlos R. Flores  
Title: President

**EXHIBIT D**

**FRANCHISE AGREEMENT**

**SONESTA RL HOTELS FRANCHISING INC.**  
**FRANCHISE AGREEMENT**  
**SONESTA ES SUITES**

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**EXHIBITS:**

Exhibit A	Listing of Ownership Interests and Identification of Premises
Exhibit B	Management Company Joinder Agreement
Exhibit C	Collateral Assignment of Online Presences
Exhibit D	Guaranty and Assumption of Obligations
Exhibit E	Property Improvement Plan



## FRANCHISE AGREEMENT

**THIS FRANCHISE AGREEMENT** (this “**Agreement**”) is made and entered into as of \_\_\_\_\_ (the “**Effective Date**”) by and between **SONESTA RL HOTELS FRANCHISING INC.**, a Washington corporation with its principal business address at Two Newton Place, 255 Washington Street, Suite 230, Newton, MA 02458 (“**we**”), and \_\_\_\_\_, whose principal business address is \_\_\_\_\_ (“**you**”).

### RECITALS

A. We and our affiliates have developed a system for the operation of hotels offering high quality, upscale extended stay hotel services, and related products and services authorized by us from time to time known as Sonesta ES Suites (the “**Brand Hotels**”).

B. We and our affiliates use, promote, and license others to use and promote certain trademarks, service marks, and other commercial symbols in operating Brand Hotels, including the Sonesta ES Suites® marks, and may create, use, and license other trademarks, service marks, and commercial symbols to identify Brand Hotels and the products and services they offer (collectively, the “**Marks**”).

C. We grant to persons who we determine satisfactorily meet our qualifications, and who confirm their willingness to undertake the investment and effort, a franchise to own and operate a Brand Hotel offering the products and services we authorize and using our and our affiliates’ distinct business formats, methods, procedures, signs, designs, layouts, standards, specifications, and Marks (the “**Franchise System**”), which we may improve, further develop or modify.

D. We and our affiliates own, operate and license others to own and operate hotels under various service marks, trademarks and trade names, including, without limitation, the Marks, Sonesta Simply Suites, Sonesta Hotels and Resorts, Sonesta Select, Royal Sonesta, Red Lion Hotel, Red Lion Inn & Suites, Hotel RL, RL, GuestHouse, Americas Best Value Inn, Knights Inn, Signature Inn, Signature, Canadas Best Value Inn, Country Hearth, Jameson Inn, 3 Palms Hotels & Resorts, Lexington, America’s Best Inn, and any other trademarks, service marks, and trade names that we or our affiliates may hereafter develop, adopt or acquire from time to time (collectively referred to as the “**Network Marks**”). Our affiliate also has a master franchise agreement with a franchisee that operates hotels located outside the United States under the trademark Sonesta Posadas del Inca, which is also considered a Network Mark. The hotels that we, our affiliates, and our and their franchisees or licensees operate under the Network Marks are collectively referred to as “**Network Hotels.**”

E. You have applied for a franchise to own and operate a Brand Hotel and have provided us with certain information in support of your application. We are willing to grant you the franchise on the terms and conditions contained in this Agreement.

### AGREEMENT

In consideration of and in reliance of the foregoing Recitals, and upon the terms and conditions set forth herein, and for other valuable consideration, the delivery, receipt and sufficiency of which are hereby acknowledged by each party, and in accordance with all terms, conditions, covenants, agreements, representations and warranties contained in this Agreement, you and we agree as follows:

#### 1. GRANT OF FRANCHISE; NO EXCLUSIVITY; RESERVATION OF RIGHTS.

A. **Grant of Franchise.** Subject to this Agreement’s terms, we grant you a limited and non-exclusive franchise (the “**Franchise**”) to establish and operate a hotel (your “**Hotel**”) under the Franchise System at the premises identified on Exhibit A (the “**Premises**”), and to use the Franchise System and the Brand Standards (as defined in Section 2.A) in its operation, for a term beginning on the Opening Date (as defined in Section 2.E) and expiring 20 years from the Opening Date, unless sooner terminated under Section 14 of this Agreement (the “**Term**”).

You agree to, at all times, faithfully, honestly, and diligently perform your obligations under this Agreement and to use your best efforts to promote your Hotel. You agree to use the Premises only for your Hotel, and, once it opens for business, to continuously operate your Hotel in accordance with this Agreement for the duration of this Agreement's term. You agree not to conduct the business of your Hotel at any location other than the Premises. You may not promote or sell any products or services, whether directly or indirectly, through or on the Internet, the World Wide Web, or any other similar proprietary or common carrier electronic delivery system, except as expressly set forth herein or as set forth in the Brand Manual, as hereinafter defined.

**B. No Exclusivity and Reservation of Rights.** We do not grant any, and you have no, exclusive rights or territorial protection around your Hotel. We (and our affiliates) retain the right at all times during and after the Term to engage in any and all activities that we (and they) deem appropriate and that have not been expressly granted to you in this Agreement, wherever and whenever we (and they) desire, and whether or not such activities compete with your Hotel, including the right, anywhere in the world, to do any of the following:

(1) establish and operate, and allow others to establish and operate Brand Hotels at any location on such terms and conditions we deem appropriate;

(2) establish, operate and license others to establish and operate, anywhere in the world other than the Premises, Network Hotels and other businesses that offer products and services which are identical or similar to the products and services offered by Brand Hotels under any trade names, trademarks, service marks and commercial symbols;

(3) purchase, merge, acquire, be acquired or affiliate with one or more existing franchise networks, chains or any other businesses, including Competitive Businesses (defined below), regardless of the location of such chains' or businesses' facilities, and to operate, franchise or license those businesses under the Marks or any other marks following the purchase, merger, acquisition or affiliation, regardless of the location of those businesses (or the franchisees or licensees of those businesses);

(4) sell our ownership interests, our assets, the Marks and/or the Franchise System to a third party; become publicly traded; engage in a private placement of some or all of our securities; merge, acquire other corporations or entities, or be acquired by another corporation or entity; and/or undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring; and

(5) engage in all other activities not expressly prohibited by this Agreement.

**C. The Exercise of Our Judgment.** We have the right to further develop and change the Brand Standards in any manner at any time either on a temporary or a permanent basis, in our sole discretion. Whenever we have reserved in this Agreement a right to take or to withhold an action, to grant or decline to grant you a right to take or withhold an action, or to provide or withhold approval or consent, we may, except as otherwise specifically provided in this Agreement, make our decision or exercise our rights based on information readily available to us and on our judgment of what is in our or the Brand Hotels' best interests at the time our decision is made.

**D. Representations and Warranties.** You warrant, represent, and agree that:

(1) If you are at any time a corporation, limited liability company, or partnership (each, an "Entity"), you will have the authority to execute, deliver, and perform your obligations under this Agreement and all related agreements and are duly organized or formed and are and will, throughout this Agreement's term, remain validly existing and in good standing under the laws of the state of your incorporation or formation and the laws of the state in which your Hotel is located;

(2) If you are an Entity, your organizational documents, operating agreement, or partnership agreement, as applicable, will recite that this Agreement restricts the issuance and

transfer of any ownership interests in you, and all certificates and other documents representing ownership interests in you will bear a legend referring to this Agreement's restrictions;

(3) If you are an Entity, Exhibit A to this Agreement completely and accurately describes all of your owners and their interests in you as of the Effective Date;

(4) If you are an Entity, each of your direct and indirect owners, with a fifteen percent (15%) or more ownership interest in you, during this Agreement's term will execute a guaranty in the form we prescribe undertaking personally to be bound, jointly and severally, by all provisions of this Agreement and any ancillary agreements between you and us. Our current form of guaranty is attached hereto as Exhibit D. Subject to our rights and your obligations under Section 12, you and your owners agree to sign and deliver to us revised Exhibit A to reflect any permitted changes in the information that Exhibit A now contains;

(5) If you are an Entity, you must identify on Exhibit A one of your owners who is a natural person with at least 25% ownership interest and voting power in you, and who will have the authority of a chief executive officer (the "**Principal**"). You agree to deliver to us a revised Exhibit A to accurately identify the Principal should the identity of that person change during the term of this Agreement as permitted hereunder;

(6) If you are an Entity, the Principal and the Management Company, as defined in Section 8.D, if applicable, are authorized, on your behalf, to deal with us in respect of all matters whatsoever which may arise in respect of this Agreement. Any decision made by the Principal or Management Company will be final and binding upon you, and we will be entitled to rely solely upon the decision of the Principal or Management Company in any such dealings without the necessity of any discussions with any other party named in this Agreement, and we will not be held liable for any actions taken by you or otherwise, based upon any decision or actions of the Principal or Management Company; and

(7) You (or any legal entity that you own, or if you are an Entity, any of your owners) are not party to any agreement with any third-party, which grants you (or any legal entity that you own, or if you are an Entity, any of your owners) the right to operate a business at the Premises of your Hotel under a brand or trademark or service mark other than the Marks, except for any lease that you may have previously entered into to obtain the rights to occupy the Premises, and your execution, delivery, and performance of your obligations under this Agreement do not and will not violate or result in a breach or default under any applicable law or any agreement to which you (or any legal entity that you own, or if you are an Entity, any of your owners) are a party or by which you (or any legal entity that you own, or if you are an Entity, any of your owners) are bound.

## 2. **PREMISES, CONVERSION OBLIGATIONS AND OPENING OF YOUR HOTEL.**

A. **Generally.** You may operate your Hotel only at the Premises. You have selected the site for the Premises. You must cause your Hotel to meet the mandatory specifications, standards, operating procedures, and rules (the "**Brand Standards**") that we prescribe for equipping, furnishing, supplying, and maintaining Brand Hotels in accordance with this Agreement.

Our acceptance of the Premises indicates only that we believe that the site meets our current acceptable criteria, which have been established for our own purposes and are not intended to be relied on by you as an indicator of likely success. You acknowledge and agree that our acceptance of the Premises is not a representation or warranty of any kind, express or implied, of the site's suitability for a Brand Hotel or any other purpose. Applying criteria that have appeared effective with other sites and premises might not accurately reflect the potential for all sites and premises, and demographic or other factors included in or excluded from our criteria could change, even after our approval of the Premises or your conversion of your existing hotel to a Brand Hotel, altering the potential of a site and premises. The uncertainty and instability of these criteria are beyond our control, and we are not responsible if a site and premises we approve fail to meet your expectations. You acknowledge and agree that your acceptance of the Franchise at the Premises is based on your own independent investigation of the site's suitability for a Brand Hotel.

B. **Interest in Premises.** You represent and warrant that, as of the date hereof and throughout the Term of the Agreement, you are and will be the true and record owner of the Premises, or that you are currently leasing the Premises under a lease that allows you the right to enter into this Agreement (the "**Lease**"). You further represent and warrant that, throughout the Term of the Agreement, you will be entitled to possession of the Premises and your Hotel without restrictions that would interfere with your performance under this Agreement, subject to the reasonable requirements of any financing secured by your Hotel. Prior to our execution of this Agreement, you must provide us a copy of your deed for the Premises, or if you do not own the Premises a copy of the Lease. If you do not own the Premises, you must provide us with copies of any amendment, addendum, extension, or other modification to the Lease within five days following execution. Further, you will provide us copies of all documentation reflecting your right to possession of the Premises at any time upon our request.

You acknowledge and agree that any of our involvement in the approval of location is for our sole benefit. You agree that you are not relying on our site approval for your benefit. You further acknowledge that you have been advised to obtain the advice of your own professional advisors in connection with the Lease.

C. **Conversion of Your Hotel.**

(1) **Property Improvement Plan.** You or your Principal and the Management Company, if applicable as provided under Section 8.D, will meet with us to conduct an initial inspection of the Premises and develop a property improvement plan (the "**PIP**") of improvements required to meet Brand Standards. The PIP is attached as Exhibit E to this Agreement and is incorporated herein by reference. On or prior to the Renovation Work Completion Date (as defined below), you will cause the renovation and construction work required in the PIP (the "**Renovation Work**") to be completed. You agree, at your expense, to (1) obtain any and all required zoning changes, planning consents, building, utility, sign and business permits and licenses, liquor license and any other consents, permits and licenses necessary to lawfully open and operate your Hotel; (2) construct all required improvements in compliance with the PIP and any other construction plans and specifications approved by us; (3) decorate your Hotel in compliance with plans and specifications approved by us; and (4) obtain all customary contractors' sworn statements and partial and final waivers of lien for construction, remodeling, decorating and installation services. You agree to use the vendor(s) we select, if any (which may include us or our affiliates), for design, engineering, construction management and purchasing services in connection with the conversion of your Hotel.

(2) **Plans and Designs.** Upon our request, you must promptly submit to us your plans, layouts, specifications, and drawings for your Hotel (collectively, the "**Plans**"), and your plans, layouts, specifications, and drawings for the proposed furnishings, fixtures, equipment and décor of your Hotel (collectively, the "**Designs**") with respect to the Renovation Work. We may supply you with representative prototype guest room and public area plans and schematic building plans as a guide for preparation of the Plans and Designs. In the event we request the Plans and Designs, and provide our approval of such Plans and Designs, such approval does not warrant the depth of our analysis or assume any responsibility for the efficacy of the Plans and Designs, or the resulting Renovation Work. You acknowledge and agree that you will not rely upon any approval we may provide you for the Plans or Designs for any purpose whatsoever except compliance with our then prevailing Brand Standards.

You are solely responsible for ensuring your Hotel and Renovation Work comply in all respects with all public laws, bylaws, statutes, ordinances, orders, rules, regulations, permits, licenses, authorizations, directions and requirements of all governments and governmental authorities, which, now or hereafter, may apply to the construction, completion, equipping and opening of your Hotel and the operation of your Hotel, including environmental, zoning, building, and life safety. We have the right to, and you will arrange for us to, participate in all progress meetings during the Renovation Work and to have access to your Hotel during reasonable business hours to inspect your Hotel, its construction, renovations, completion, furnishing and equipping.

However, we are not obligated to participate in such progress meetings, or to inspect your Hotel, and our participation and inspection is not to be considered as a representation of the adequacy of the construction, the structural integrity, or the sufficiency of mechanical and electrical systems for your Hotel or the Renovation Work. Upon completion of the Renovation Work and as a condition to opening of your Hotel under the Marks, if we so require, your architect, general contractor or other certified professional must provide us with a certificate stating that the as-built premises comply with, or do not require compliance with, the Americans with Disabilities Act and its architectural guidelines and all state and local codes for accessible facilities.

(3) Commencement; Completion. You will begin the Renovation Work on or before the date specified in the PIP. Your failure to begin the Renovation Work by such date will be a default of this Agreement, unless we extend the renovation start date. If you want to request an extension of the Renovation Work start date you must submit to us a written request prior to such date; if we approve the extension request we will provide you a written notice of approval, which notice will set the new Renovation Work start date, and you must pay our then-current extension fee. You must obtain all necessary insurance, including builder's risk, and all permits and certifications required for lawful renovation of your Hotel, including zoning, access, sign, building permits, and fire certifications, and if requested by us, you will provide us copies of all such certificates of insurance, permits, and certifications. You will continue the Renovation Work uninterrupted (except to the extent, and only while, continuation is rendered impossible by events beyond your control such as third party strikes; epidemics; pandemics; natural disasters including lightning strikes, hurricanes, earthquakes, tornadoes, landslides, or floods; war, whether declared or not; or governmental action or change in law ("**Force Majeure Events**")) until the Renovation Work is completed. For purposes of this Section, Force Majeure Events do not include your own financial inability, inability to obtain financing, inability to obtain permits or any other events unique to you or your Hotel. Notwithstanding any Force Majeure Event, or any other matter, the Renovation Work must be completed and your Hotel must be furnished, equipped, and comply with this Agreement and the Brand Standards no later than the date specified in the PIP (the "**Renovation Work Completion Date**"). You will notify us in writing upon your completion of the Renovation Work. We will have the sole right to determine whether the Renovation Work has been completed in accordance with this Agreement, the Brand Standards and the PIP. In addition to compliance with and completion of all pre-opening obligations in this Agreement, you will not open your Hotel under the Marks until we confirm in writing that the Renovation Work has been completed in compliance with the PIP (the "**PIP Completion Notice**").

D. Technology Standards & Computer System. You will purchase or license, install, utilize and maintain at your Hotel, at your sole cost, and at then-current pricing or fees as provided by us or the applicable third-party provider, all software, hardware, services, and equipment that we or our affiliates license, sell to, or require you to purchase or lease in operation of your Hotel (the "**Computer System**"). "Computer System" shall include any data processing systems specified or required by us or our affiliates for use by Brand Hotels, including, but not limited to, guest check-in, reservation (the "**Central Reservation System**"), property management (the "**Property Management System**"), revenue management (the "**Revenue Management System**") or other statistical reporting systems. You will be responsible for all costs incurred in fulfilling your obligations hereunder, including, without limitation, costs and fees for data circuit charges, and supplies used in the operation and maintenance of the Computer System. You also agree to maintain all specified points of high-speed Internet connection. You agree to make Wi-Fi available to your Hotel's guests, free of charge to them. We may modify specifications for, and components of, the Computer System. Our modification of specifications for the Computer System, and other technological developments or events, might require you to purchase, lease, or license new or modified computer hardware or software and to obtain service and support for the Computer System. You agree to incur the costs of obtaining the computer hardware and software comprising the Computer System (or additions and modifications) and required service or support, regardless of whether those costs are fully amortizable over this Agreement's remaining term. We have no obligation to reimburse you for any Computer System costs. Within 60 days after we advise you of changes to the Computer System, you agree to implement such changes, and if necessary, procure any additional equipment, components, hardware, or software we

designate. You must at all times during the term of this Agreement ensure that your Computer System, as modified, meets our Brand Standards and functions properly.

You agree that we or our affiliates may condition any license of proprietary software to you, or your use of technology that we or our affiliates develop or maintain, on your signing a software license agreement or similar document that we or our affiliates prescribe to regulate your use of, and our and your respective rights and responsibilities with respect to, the software or technology. We and our affiliates may charge you a monthly or other fee for any proprietary software or technology that we or our affiliates license to you and for other maintenance and support services that we or our affiliates provide during this Agreement's term.

Although you agree to buy, use, and maintain the Computer System according to our standards and specifications, you will have sole and complete responsibility for: (1) the acquisition, operation, maintenance, and upgrading of the Computer System; (2) the manner in which your Computer System interfaces at our specified levels of connection speed with our and any third party's computer system; and (3) any and all consequences if the Computer System is not properly operated, maintained, and upgraded.

You will not maintain more than one Property Management System or Revenue Management System in connection with the operation of your Hotel, and all OTAs (as defined in Section 4.G) and other distribution channels must be connected to our Central Reservation System, or, if no connectivity is available for a particular distribution channel, through your authorized Property Management System unless directed or approved by us in advance in writing.

E. **Business Opening.** You agree not to open your Hotel until:

- (1) we notify you in writing that your Hotel meets our standards and specifications;
- (2) you have obtained all applicable licenses and permits;
- (3) you have complied with our training and brand introduction requirements;
- (4) you hire a staff to operate your Hotel, and train such staff to protect the Marks in compliance with the Brand Standards;
- (5) you have complied with all your development obligations specified in Section 2.C, and we notify you in writing that your Renovation Work has been completed in compliance with the PIP to our satisfaction;
- (6) you obtain and install the Computer System to our standards and specifications;
- (7) the Initial Fee has been paid in full and you pay other amounts then due to us; and
- (8) you give us certificates for all required insurance policies.

You agree to open your Hotel for business by the date set forth on Exhibit A (the "**Opening Date**"), unless we otherwise agree in writing. If you fail to open your Hotel under the Marks by the Opening Date, you will pay to us, as damages for failure to open on time and not as a penalty, our then-current Opening Date rescheduling fee (currently up to \$5,000).

### 3. **FEES.**

A. **Initial Fee and Application Fee.** You must pay us at the time of your execution of this Agreement a non-refundable initial fee in the amount of \$65,000 or \$500 per Guest Room (defined below), whichever is greater (the "**Initial Fee**"). Prior to or at the time of your submission of your franchise application, you paid us a non-refundable application fee in the amount of \$2,000 (the "**Application Fee**"), which will be applied to your Initial Fee. All fees must be paid to us by cashier's check, bank certified check, or wire transfer.

**“Guest Room”** means each rentable unit in your Hotel generally used for overnight guest accommodations, the entrance to which is controlled by the same key. Adjacent Guest Rooms with connecting doors that can be rented as separate units are considered separate Guest Rooms. The initial number of approved Guest Rooms is identified on Exhibit A.

B. **Royalty Fee.** Beginning on the earlier of (a) the Opening Date, or (b) the date you begin operating your Hotel under the Marks, you will pay to us via ACH in U.S. dollars on or before the twentieth (20th) day of each month, including the final month of the Term, a monthly royalty fee in the amount of 5% of Gross Rooms Revenue, as defined below, accruing during the preceding calendar month (the **“Royalty”**). You will pay us the Royalty in the manner provided below (or as the Brand Manual otherwise prescribes).

C. **Definition of “Gross Rooms Revenue”.** As used in this Agreement, the term **“Gross Rooms Revenue”** means all revenue attributable to or payable for rental of Guest Rooms at your Hotel, whether from cash, check, credit and debit card, barter exchange, trade credit, or other credit transactions, whether or not collected, including guaranteed no-show revenue, net of chargebacks from credit card issuers, revenue calculated on reservations cancelled outside of your Hotel’s cancellation policy or outside of the reservation channel in which it was made, any proceeds actually received from any business interruption or similar insurance applicable to the loss of revenue due to the non-availability of Guest Rooms, and any miscellaneous fees charged to all guests regardless of the accounting treatment of such fees. Gross Rooms Revenues shall not include (1) any federal, state, or municipal sales, use, or occupancy taxes collected from customers and paid to the appropriate taxing authority, and (2) gratuities to employees or service charges levied in lieu of such gratuities, which are payable to employees.

D. **Brand Promotion Fund Contributions.** You agree to contribute to the Brand Promotion Fund, as defined in Section 9.A, in the amount we specify from time to time, which fee will be payable in the same manner as the Royalty. Currently, the required Brand Promotion Fund contribution is 3.5% of your Hotel’s Gross Rooms Revenue. However, we have the right, at any time and on notice to you, to increase the amount you must contribute to the Brand Promotion Fund, provided that the Brand Promotion Fund contribution shall not exceed 4.5% of your Hotel’s Gross Rooms Revenue.

E. **Third-Party Fees.** We periodically may require you to pay us fees due from you to third parties, which we will collect on behalf of such third parties and remit to such third parties.

F. **Property Improvement Plans Fees.** In connection with our inspections of your Hotel and issuance of any PIP, and if applicable, reinspection following a failed PIP inspection, you will pay us our then current PIP fee (currently \$5,000).

G. **Booking Fees and Commissions; Other Fees.** You are responsible for the payment of all booking fees, reservation fees, and commissions incurred in connection with the operation of your Hotel, whether payable directly to a third-party or advanced by us to such third-party and billed to you. In addition, beginning on the Opening Date, you will pay to us for each month, or as otherwise billed, other fees resulting from the operation of your Hotel and the programs in which you are or will be required to participate as further described in the Brand Manual (such as technology fees and brand conference fees), which may change from time to time. A summary of the currently applicable booking fees, commissions, and other fees is set forth in Schedule 3.G. Such fees are subject to change.

You will pay to us such other fees designated in this Agreement, in the Brand Manual, or otherwise provided to you in writing, which may be made available to you electronically through the Network’s online franchisee portal. We have the right to rename certain programs, add or remove programs, and modify fees for various elements of the Franchise System and other services as described in the Brand Manual, this Agreement or otherwise provided to you in writing, and upon 30 days’ notice to you. If you request that we provide extraordinary services, such as amendments you request, amendments necessitated by your action or inaction, a lender comfort letter or similar instrument, or other documentation outside the ordinary course of business, you must pay us an administrative fee for each such letter, instrument or document (currently \$2,000 per lender comfort letter and up to \$5,000 for other instruments or documentation), plus any additional costs we may incur in preparing such instrument, including reasonable attorneys’ fees.

H. **Interest on Late Payments.** If any amount due from you hereunder is not paid when due, such non-payment will constitute a material breach of this Agreement. In addition, we may assess a late payment charge of 1.5% per month or the maximum amount permitted by applicable law, whichever is less, on the unpaid amount beginning on the first day following the due date. Should we engage legal counsel or other professionals in connection with any failure by you to pay when due any monies owed under this Agreement or submit when due any reports, information or supporting records, or in connection with any failure otherwise to comply with this Agreement, you will reimburse us on demand for all of the above-listed costs and expenses we incur, whether or not a legal action or other proceeding is initiated. You acknowledge that this Section 3.H is not our agreement to accept any payments after they are due or our commitment to extend credit to, or otherwise finance your operation of, your Hotel.

I. **Room Addition Fee.** If you add or construct additional rooms at your Hotel at any time after you sign this Agreement, you will pay us a nonrefundable fee equal to the greater of \$500 per additional Guest Room or \$5,000 (the "**Room Addition Fee**"). You must pay the Room Addition Fee to us when you submit an application for our approval to add any Guest Rooms to your Hotel, and you must submit that application to us before you enter into any agreement to add any rooms to your Hotel. As a condition to our granting approval of such application, we may require you to modernize, rehabilitate or upgrade your Hotel, subject to Section 8.G of this Agreement.

J. **Application of Payments.** Despite any designation you make, we may apply any of your payments to any of your past due indebtedness to us. We may set off any amounts you or your owners owe us or our affiliates against any amounts we or our affiliates owe you or your owners.

K. **Method of Payment.** You hereby authorize us to debit your checking, savings or other account automatically for the Royalty, Brand Promotion Fund (as defined in Section 9.A) contributions, and other amounts due to us or our affiliates (the "**EFT Authorization**"). You agree to sign and deliver to us any documents we require for such EFT Authorization. Such EFT Authorization shall remain in full force and effect during the term of this Agreement. We will debit the account you designate for these amounts on their due dates (or the subsequent business day if the due date is a national holiday or a weekend day). You agree to ensure that funds are available in your designated account to cover our withdrawals. If we permit you to pay by any other means, we may require payment of our then-current convenience fee. The parties acknowledge that due to technology developments and changes different payment methods may become available during the Term. We may from time to time require that you, in lieu of direct debit withdrawals, set up another form of payment for any fees and payments due under this Agreement. If so required, you will comply within a reasonable time.

If you fail to report the Gross Rooms Revenue, in addition to any other rights hereunder, we may debit your account for one hundred ten percent (110%) of the average of the last three (3) Royalty and Brand Promotion Fund contributions that we debited (or during the Term of this Agreement, if you have operated your Hotel for less than three (3) months). If the amounts that we debit from your account are less than the amounts you actually owe us (once we have determined the true and correct Gross Rooms Revenue), we will debit your account for the balance on the day we specify. If the amounts that we debit from your account are greater than the amounts you actually owe us, we will credit the excess against the amounts we otherwise would debit from your account during the following month.

We may require you to pay any amounts due under this Agreement or otherwise by means other than automatic debit (e.g., by check) whenever we deem appropriate, and you agree to comply with our payment instructions.

L. **Change in Law.** If a law is enacted during the term of this Agreement which prohibits or restricts in any way your ability to pay and our ability to collect Royalty or other amounts based on Gross Rooms Revenue, or if any gross receipts, sales, use, excise or any similar tax that is based upon gross income or revenues is imposed upon us or our affiliates for the receipt of any payments you are required to make to us or our affiliates under this Agreement, then we reserve the right to modify your payment obligations to us under this Agreement and revise the applicable provisions hereunder in order to provide the same basic economic effect to both us and you as currently provided in this Agreement. In such event, you agree to execute the appropriate document(s) in the form we prescribe to give effect to or take account



of such revisions. If we determine in good faith that the effect of any law enacted hereafter will be materially detrimental to our interests, we may terminate this Agreement by delivering written notice thereof to you.

M. **Non-Compliance Charge.** In addition to our other rights and remedies, we may charge you a non-compliance charge in an amount equal to one percent (1%) of Gross Rooms Revenue per month for each month you are in non-compliance of any term of this Agreement, including failure to pay (or to have adequate amounts available for electronic transfer of) amounts you or your Affiliates owe us or our affiliates or failure to timely provide required reports and financial statements. We may change or eliminate this charge in our sole discretion.

#### 4. **TRAINING AND ASSISTANCE.**

A. **Training.** Prior to opening your Hotel, or within ninety (90) days of activating your Hotel in the Franchise System, your general manager and director of sales or sales lead must complete, to our satisfaction, initial brand training and technology training conducted by us at your Hotel, at another location we designate, or virtually, as we may determine in our discretion. You (or your Principal), Management Company lead personnel, your executive officers, and additional employees that we approve may attend training if space permits. The initial brand training will consist of three to five days of training, and the technology training will consist of up to five days of training (although the specific number of days depends on our opinion of your general manager's and director of sales or sales lead's experience and needs). If we determine that your general manager or your director of sales or sales lead cannot complete initial brand training or technology training to our satisfaction, we may terminate this Agreement. You will pay our initial brand training fee and our technology training fee (currently \$5,000, and up to \$15,000, respectively). You also will be responsible for our personnel's travel and living expenses, and your and your employees' travel and living expenses, wages, and workers' compensation insurance while attending training, if applicable.

The initial brand training program will cover material aspects of operating a Brand Hotel including (a) brand immersion training, (b) the loyalty program and certain related software, and (c) the Franchise System's safety policies and protocols. The technology training will cover use of the required Property Management System and streamlining business processes.

We may require that select personnel, in addition to your general manager and director of sales or sales lead, complete our required training within a designated time period, prior to or after your Opening Date. All training must be completed to our satisfaction and verification of successful completion must be presented upon our request.

You (or your Principal) may request additional training at the end of the initial brand training program and technology training, to be provided at our then-current fees if your general manager does not feel sufficiently trained in the operation of a Brand Hotel. We and you will jointly determine the duration of this additional training. However, if your general manager completes our initial brand training program and technology training to our satisfaction and you have not expressly informed us in writing at the end of that program that your general manager does not feel sufficiently trained in the operation of a Brand Hotel, then your general manager will be deemed to have been trained sufficiently to operate a Brand Hotel.

We may require your general manager, director of sales or sales lead, you (or your Principal), and/or previously trained and experienced employees to attend and complete to our satisfaction various training courses that we periodically choose to provide at the times and locations that we designate, including courses and programs provided by third parties we designate. You will pay our then-current ongoing training fees for such training (currently (i) \$1,500 per day, plus our personnel's travel costs and expenses for in-person, on-site training, and (ii) \$500 per day for virtual training). We will not require attendance at more than two such courses, or for more than a total of three business days, during a calendar year. Besides attending these courses, you agree to attend the Brand Conference (as defined in Section 4.B) each year at a location we designate. All training and the Brand Conference may be held virtually, in our sole discretion. Attendance will not be required for more than five days during any calendar year. You agree to pay all costs to attend, including the attendance fees we then charge.

If you have a new Principal during this Agreement's term, the new Principal must complete to our satisfaction our then current initial brand training program. We may charge our then current training fee for training new Principals. You also agree to pay all travel and living expenses which your Principal incurs during all training courses and programs.

You understand and agree that any specific ongoing training or advice we provide does not create an obligation (whether by course of dealing or otherwise) to continue to provide such specific training or advice, all of which we may discontinue and modify from time to time. We reserve the right to require any employees attending training to sign a confidentiality agreement pursuant to Section 6 hereof.

B. **Brand Conference.** We will convene a brand conference ("**Brand Conference**") no less frequently than every 12 months at the location of our choice, or virtually, as we determine in our discretion, at which Brand Hotel franchisees will gather to network and participate in educational seminars. You (or one of your owners), and your general manager or a representative of your Management Company (if applicable) must attend the Brand Conference. You must pay our then-current Brand Conference fee for each attendee. You will be solely responsible for your attendees' wages and expenses of travel, lodging, certain meals, and other out-of-pocket costs.

C. **General Guidance.** We may, in our discretion, advise you from time to time regarding the operation of your Hotel based on your reports or our inspections, with respect to:

- (1) standards, specifications, and operating procedures and methods that Brand Hotels use;
- (2) purchasing required and authorized furniture, fixtures and equipment ("**FF&E**") and other products and services;
- (3) advertising and marketing materials and programs;
- (4) reservation services; and
- (5) employee training.

We may also provide guidance via telephonic conversations or consultation at our offices. If you request, and we agree to provide, additional or special guidance, assistance, or training, we may charge you our then applicable fee, including our personnel's per diem charges and travel and living expenses.

D. **Loyalty Program.** We may administer and manage loyalty programs that will provide participating guests of your Hotel with certain rewards or benefits when staying at your Hotel. Such loyalty programs may apply specifically for Brand Hotels or to any or all Network Hotels. Currently, Brand Hotels participate in our loyalty program referred to as Sonesta Travel Pass. We may modify or discontinue any loyalty program at any time at our sole discretion. You must participate in and honor the terms of any and all loyalty, discount or other promotional program applicable to Brand Hotels and pay all applicable fees or charges associated with such programs (including any fees assessed by us, room discounts given to guests, or rewards provided to guests, that are applicable to your Hotel) that we offer to the public on your behalf and any room rate quoted to any guest at the time the guest makes an advance reservation. You agree that you will take all action necessary to participate in any loyalty program, and that you will grant us all necessary rights in and to any photographs, video and/or other marketing materials that we may require in order to reasonably undertake such programs on behalf of your Hotel.

We charge a loyalty program fee for your participation in the Sonesta Travel Pass program in the amount of 4.5% of your Hotel's Qualified Room Revenue (defined below) from guests participating in the Sonesta Travel Pass program, payable at the same time and in the same manner as Royalty Fees. "**Qualified Room Revenue**" includes (a) Qualifying Room Rates (defined below), and (b) at our discretion, any other items charged to the loyalty program member's room not defined in subsection (a). "**Qualifying Room Rates**" include: (1) non-discounted rates; (2) standard corporate rates; (3) leisure rates; (4)

government rates; (5) corporate and negotiated rates; (6) conference and meeting rates; and (7) individual hotel contract rates

E. **Professional Photography.** You must arrange a professional photography session at your Hotel prior to the Opening Date. Further, if at any time during the Term your Hotel undergoes significant renovations or you make improvements in accordance with a PIP that we issue to you, we may require you to hire a professional photographer, approved by us, to conduct an additional photography session for your Hotel. All photography sessions will be at your sole expense and will be paid to the third-party vendor, unless directed otherwise in accordance with Section 3.E of this Agreement.

F. **Help Desk.** We will provide you with access to our IT and franchise services help desks, which support the owner's portal, provide email troubleshooting, support the brand-authorized property management system, and other Brand Hotel and Network Hotel assistance services. We periodically may modify the services provided by the help desks. Requests for certain support may incur a fee, the amount of which will be determined and agreed by you and us prior to initiation of such support.

G. **Third-Party Distribution Program.**

(1) We have entered into agreements with intermediaries for various distribution channels, pursuant to which such distribution channels and online travel agencies ("**OTAs**") (which may include Priceline, Booking.com, Hotwire, Expedia, and other third party intermediaries providing travel products for sale electronically to travel agents, corporations, meeting planners, and consumers) will offer your hotel room inventory through their websites including, in some cases, rooms at loyalty program member rates (the "**Third-Party Distribution Program**"). You must participate in the Third-Party Distribution Program, under the terms and conditions we negotiate, including pricing terms. You must provide us with information we may request in order to facilitate your participation with the Third-Party Distribution Program or the Franchise System Website (as defined in Section 9.B). You are responsible for the payment of all reservation fees, including third-party booking fees, global distribution system ("**GDS**") fees, and fees associated with the central reservation office (call center) and Central Reservation System, in connection with stays booked at your Hotel through their websites.

(2) You must connect to all third-parties distribution channels through our Central Reservation System, unless such third-party does not directly or indirectly offer interfaces to the Central Reservation System. You otherwise may not bypass our Central Reservation System by connecting such third-party distribution channel to your Property Management System or otherwise. You must maintain rates and inventory in the Central Reservation System on a rolling 12-month basis. If you fail to maintain rates and inventory on a rolling 12-month basis, you will be given seven (7) days' written notice to do so, after which, we will extend your rates on your behalf. Upon our first written notice to you for failing to maintain rates and inventory on a rolling 12-month basis, you must pay us a fee of \$150. For repeated occurrences requiring additional notice to you, we may charge you additional fees.

H. **Brand Manual.** During the term of this Agreement, we will provide you with access to our brand manual for the operation of Hotels (the "**Brand Manual**"), which may include one or more separate manuals as well as other written materials. The Brand Manual contains mandatory Brand Standards that we periodically prescribe for developing and operating Brand Hotels, information on suggested procedures, and your other obligations under this Agreement. We may modify the Brand Manual periodically to reflect changes in Brand Standards, including in the form of memoranda and newsletters. You agree to keep your copy of the Brand Manual current and in a secure location at your Hotel. If there is a discrepancy between our copy of the Brand Manual and yours, our copy of the Brand Manual controls. You agree that the Brand Manual's contents are confidential, that you will keep it in a secure location which will not be accessible to persons who are not authorized to review it, and that you will not disclose the Brand Manual to any person other than your employees who need to know its contents. You may not at any time copy, duplicate, record, or otherwise reproduce any part of the Brand Manual. We may make some or all of the Brand Manual available through a restricted Website or extranet to which you will have access. If we do so, you agree to

monitor and access the Website or extranet for any updates to the Brand Manual or Brand Standards. Any passwords or other digital identifications necessary to access the Brand Manual will be deemed to be part of Confidential Information (as defined in Section 6). For purposes of this Agreement, “**Website**” means an interactive electronic document contained in a network of computers linked by communications software, including the internet and world wide web home pages.

I. **Delegation of Performance.** You agree that we have the right to delegate the performance of any portion or all of our obligations under this Agreement to third-party designees, whether these designees are our agents or independent contractors with whom we have contracted to perform these obligations.

## 5. **MARKS; COPYRIGHTS.**

A. **Ownership and Goodwill of Marks.** Your right to use the Marks is derived only from this Agreement and limited to your operating your Hotel according to this Agreement and all Brand Standards we prescribe during its term. Your or your owners’ unauthorized use of the Marks is a breach of this Agreement and infringes our and our affiliates’ rights in the Marks. You acknowledge and agree that your use of the Marks and any goodwill established by that use are exclusively for our and our affiliates’ benefit and that this Agreement does not confer any goodwill or other interests in the Marks upon you (other than the right to operate your Hotel under this Agreement). All provisions of this Agreement relating to the Marks apply to any additional proprietary trademarks and service marks we authorize you to use. You may not at any time during or after this Agreement’s term contest or assist any other person in contesting the validity of, or our and our affiliates’ rights to, the Marks.

B. **Limitations on Your Use of Marks.** You agree to use the Marks associated with Brand Hotels as the sole identification of your Hotel, except that you agree to identify yourself as its independent owner in the manner we prescribe. You (or your owners) may not use any Mark (1) as part of any corporate or legal business name, (2) with any prefix, suffix, or other modifying words, terms, designs, or symbols (other than logos we have licensed to you), (3) in selling any unauthorized services or products, (4) as part of any domain name, homepage, electronic address, or otherwise in connection with a Website (unless in connection with our approved Franchise System Website), (5) in any user name, screen name, domain name, homepage, electronic address, social media account, other online presence or presence on any electronic medium of any kind (“**Online Presence**”), (6) any business operated separate from your Hotel, including the name or identity of developments adjacent to or associated with your Hotel, or (7) in any other manner that we have not expressly authorized in writing. You may not use any Mark in advertising the transfer, sale, or other disposition of your Hotel or an ownership interest in you without our prior written consent. You agree to display the Marks associated with Brand Hotels prominently as we prescribe at your Hotel and on forms, advertising, supplies, products, stationery, and other materials we designate. You agree to give the notices of trademark and service mark registrations that we specify and to obtain any fictitious or assumed name registrations required under applicable law.

C. **Discontinuance of Use of Marks.** If it becomes advisable, in our opinion, at any time for us to require you to modify or discontinue using any Mark or to use one or more additional or substitute trademarks or service marks, you agree to comply with our directions within a reasonable time after receiving notice. We need not reimburse you for your expenses of changing the exterior and interior signs, stationery, packaging, operating equipment and supplies, employee uniforms, brochures and other promotional material, or any other items used at or in connection with your Hotel, for any loss of revenue due to any modified or discontinued Mark, or for your expenses of promoting a modified or substitute trademark or service mark.

Our rights in this Section 5.C apply to any and all of the Marks (and any portion of any Mark) that we authorize you to use in this Agreement. We and our affiliates may exercise these rights at any time and for any reason, business or otherwise, that we and our affiliates think best. You acknowledge both our right to take this action and your obligation to comply with our directions.

D. **Copyrighted and Copyrightable Materials.** During the Term, we will authorize you to use certain copyrighted and copyrightable materials in connection with the operation of your Hotel, including

the Brand Manual, trade dress and other materials (collectively, the “**Copyrighted Materials**”). As between you and us, we or our affiliates own the Copyrighted Materials and all benefits inherent in such ownership. We and our affiliates may further create, acquire or obtain licenses for certain copyrights in various works of authorship used in connection with the operation of your Hotel, including all categories of works eligible for protection under the copyright laws of the United States, all of which will be deemed to be Copyrighted Materials under this Agreement. We intend that all works of authorship related to Brand Hotels and created in the future will be owned by us or our affiliates.

E. **Limitation on Your Use of Copyrighted Materials.** Your right to use the Copyrighted Materials is derived only from this Agreement and limited to your operating your Hotel according to this Agreement and all Brand Standards we prescribe during its term. You will ensure that all Copyrighted Materials used hereunder bear an appropriate copyright notice under the Universal Copyright Convention or other copyright laws we prescribe specifying that we or, as appropriate, our affiliate is the owner of the copyright. You acknowledge that this Agreement does not confer upon you any interest in the Copyrighted Materials, other than the right to use them in the operation of your Hotel in compliance with this Agreement. If we authorize you to prepare any adaptation, translation or work derived from the Copyrighted Materials, or if you prepare any Copyrighted Materials such as advertisements, posters or promotional materials, such adaptation, translation, derivative work or copyrighted material is our property, and you assign all your right, title and interest therein to us. You will execute all documents, in recordable form, as we determine are necessary to reflect such ownership. You will not use any such adaptations, translations, derivative works and copyrighted materials without our prior written approval.

F. **Notification of Infringements and Claims.** You agree to notify us immediately of any apparent infringement or challenge to your use of any Mark or Copyrighted Material, or of any person’s claim of any rights in any Mark or Copyrighted Material, and not to communicate with any person other than us, our attorneys, and your attorneys, regarding any infringement, challenge, or claim. We and our affiliates may take the action we deem appropriate (including no action) and control exclusively any litigation, U.S. Patent and Trademark Office proceeding, U.S. Copyright Office proceeding, or other administrative proceeding arising from any infringement, challenge, or claim or otherwise concerning any Mark or Copyrighted Material. You agree to sign any documents and take any other reasonable action that, in the opinion of our and our affiliates’ attorneys, are necessary or advisable to protect and maintain our and our affiliates’ interests in any litigation or U.S. Patent and Trademark Office, U.S. Copyright Office or other proceeding, or otherwise to protect and maintain our and our affiliates’ interests in the Marks and Copyrighted Materials. We will reimburse you for your reasonable costs of taking any action that we or our affiliates have asked you to take.

G. **Indemnification for Use of Marks.** We agree to reimburse you for all damages and reasonable expenses that you incur in any trademark infringement proceeding disputing your authorized use of any Mark under this Agreement if you have timely notified us of, and comply with our directions in responding to, the proceeding. At our option, we and our affiliates may defend and control the defense of any proceeding arising from your use of any Mark under this Agreement.

## 6. **CONFIDENTIAL INFORMATION.**

We and our affiliates possess (and may continue to develop and acquire) certain confidential information, some of which constitutes trade secrets under applicable law (the “**Confidential Information**”), relating to developing and operating Brand Hotels, whether or not marked confidential, including (without limitation):

- (1) site selection criteria;
- (2) training and operations materials and manuals, including the Brand Manual;
- (3) the Brand Standards and other methods, formats, specifications, standards, systems, procedures, techniques, sales and marketing techniques, knowledge, and experience used in developing, promoting and operating Brand Hotels;

- (4) market research, promotional, marketing and advertising programs for Brand Hotels;
- (5) knowledge of specifications for, and suppliers of FF&E, products and supplies;
- (6) any Computer System, computer software, or similar technology which is proprietary to us or our affiliates, including digital passwords and identifications and any source code of, and data, reports, and other printed materials generated by, the software or similar technology;
- (7) knowledge of the operating results and financial performance of Brand Hotels, other than your Hotel; and
- (8) customer data.

All Confidential Information furnished to you by us or on our behalf, whether orally or by means of written material (i) shall be deemed proprietary, (ii) shall be held by you in strict confidence, (iii) shall not be copied, disclosed or revealed to or shared with any other person except to your employees or contractors who have a need to know such Confidential Information for purposes of this Agreement and who are under a duty of confidentiality no less restrictive than your obligations hereunder, or to individuals or entities specifically authorized by us in advance, and (iv) shall not be used in connection with any other business or capacity. You will not acquire any interest in Confidential Information other than the right to use it as we specify in operating your Hotel during this Agreement's term. You agree to protect the Confidential Information from unauthorized use, access or disclosure in the same manner as you protect your own confidential or proprietary information of a similar nature and with no less than reasonable care. We reserve the right to require that any employee, agent or independent contractor that you hire execute a non-disclosure agreement to protect the Confidential Information. We reserve the right to regulate the form of non-disclosure agreement that you use and to be a third-party beneficiary of those agreements with independent enforcement rights. You acknowledge that any form of non-disclosure agreement that we require you to use, provide to you, or regulate the terms of, may or may not be enforceable in a particular jurisdiction. You agree that you are solely responsible for obtaining your own professional advice with respect to the adequacy of the terms and provisions of any confidentiality agreement that your employees, agents and independent contractors sign.

Confidential Information does not include information, knowledge, or know-how which you can demonstrate lawfully came to your attention before we provided it to you directly or indirectly; which, at the time we disclosed it to you, already had lawfully become generally known through publication or communication by others (without violating an obligation to us or our affiliates); or which, after we disclose it to you, lawfully becomes generally known through publication or communication by others (without violating an obligation to us or our affiliates). However, if we include any matter in Confidential Information, anyone who claims that it is not Confidential Information must prove that one of the exclusions provided in this paragraph is fulfilled.

You acknowledge and agree that, as between us and you, we are the sole owner of all right, title, and interest in and to the Franchise System and any Confidential Information. All improvements, developments, derivative works, enhancements, or modifications to the Franchise System and any Confidential Information (collectively, "**Innovations**") made or created by you, your employees or your contractors, whether developed separately or in conjunction with us, shall be owned solely by us. You represent, warrant, and covenant that your employees and contractors, including the Management Company, if applicable, are bound by written agreements assigning all rights in and to any Innovations developed or created by them to you. To the extent that you, your employees or your contractors are deemed to have any interest in such Innovations, you hereby agree to assign, and do assign, all right, title and interest in and to such Innovations to us. To that end, you shall execute, verify, and deliver such documents (including assignments) and perform such other acts (including appearances as a witness) as we may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining, and enforcing such ownership rights in and to the Innovations, and the assignment thereof. Your obligation to assist us with respect to such ownership rights shall continue beyond the expiration or termination of this

Agreement. In the event we are unable for any reason, after reasonable effort, to secure your signature on any document needed in connection with the actions specified in this Section 6, you hereby irrevocably designate and appoint us and our duly authorized officers and agents as your agent and attorney in fact, which appointment is coupled with an interest and is irrevocable, to act for and on your behalf to execute, verify, and file any such documents and to do all other lawfully permitted acts to further the purposes of this Section 6 with the same legal force and effect as if executed by you. The obligations of this Section 6 shall survive any expiration or termination of this Agreement.

7. **EXCLUSIVE RELATIONSHIP DURING TERM.**

A. **Covenants Against Competition.**

(1) You agree that, during this Agreement's term, neither you, any of your owners, nor any of your or your owners' immediate family members will, without our prior written consent:

a. have any direct or indirect interest as an owner – whether of record, beneficially, or otherwise – in a Competitive Business (defined below), wherever located or operating (except that equity ownership of less than five percent (5%) of a Competitive Business whose stock or other forms of ownership interest are publicly traded on a recognized United States stock exchange will not be deemed to violate this subparagraph);

b. perform services as a director, officer, manager, employee, consultant, representative, lessor, or agent for a Competitive Business, wherever located or operating;

c. divert or attempt to divert any actual or potential business or customer of your Hotel to a Competitive Business; or

d. directly or indirectly, appropriate, use or duplicate the Franchise System or Brand Standards, or any portion thereof, for use in any other business or endeavor.

(2) The term “**Competitive Business**” means any entity that, (i) directly or through an affiliate, owns in whole or in part, or is the franchisor or other owner of a hotel brand or trade name (whether or not licensed) that, in our judgment, competes with the Brand Hotels or Network Hotels, irrespective of the number of hotels comprising the competitive hotel brand, (ii) that offers or sells goods or services that are generally the same as or similar to the goods or services being offered by businesses owned, operated, franchised or licensed by us or our affiliates, or (iii) that grants franchises or licenses for the operation of any of the foregoing or provides services to the franchisor or licensor of any of the foregoing. Notwithstanding the foregoing, no entity will be considered a Competing Business if such entity has an interest merely as (i) a franchisee; (ii) a management company operating hotels on behalf of multiple brands; or (iii) a passive investor that has no control over business decisions of such brand. You agree to obtain similar covenants from the personnel we specify, including officers, directors, managers, and other employees attending our training program or having access to Confidential Information. We have the right to regulate the form of agreement that you use and to be a third-party beneficiary of that agreement with independent enforcement rights.

B. **Non-Interference.** You further agree that, during the Term, neither you nor any of your owners, your or your owners' affiliates, or the officers, directors, managers, employees, agents, or immediate family members of any of the foregoing, will:

(1) interfere or attempt to interfere with our or our affiliates' relationships with any vendors or consultants; or

(2) engage in any other activity which might injure the goodwill of the Marks or the Brand Hotels.

8. **BUSINESS OPERATIONS AND BRAND STANDARDS.**

A. **Condition and Appearance of Your Hotel.** You agree that you will not use any part of the Premises for any purpose other than operating a Brand Hotel in compliance with this Agreement, unless you have obtained our prior written consent for such other use, and that you will place or display at the Premises (interior and exterior) only those signs, emblems, designs, artwork, lettering, logos and display and advertising materials that we approve from time to time. You further agree to maintain the condition and appearance of your Hotel and the Premises in accordance with the Brand Standards and, consistent with the image of Brand Hotels, as an efficiently operated business offering high quality services and observing the highest standards of cleanliness and efficient, courteous service.

B. **Products and Services Your Hotel Offers.** You agree that you (1) will offer and sell from your Hotel all of the products and services that we periodically specify in the Brand Manual, including all products and services ancillary to the operation of your Hotel that we may periodically specify, such as food and beverage operations, dining, bar, lounge, retail food and beverage services, meetings, events, and catering services ("**Food and Beverage Operations**"), and such other products or services as we periodically specify; (2) will not offer or sell at your Hotel, the Premises or any other location any products or services we have not authorized; and (3) will discontinue selling and offering for sale any products or services that we at any time disapprove.

C. **Other Operations.** You must ensure that all applicable Food and Beverage Operations, and any other approved ancillary products and services, as provided in the Brand Manual, operate in full compliance with all applicable laws, rules and regulations and all applicable Brand Standards. You or the Management Company, if applicable, must provide training programs to such providers in the manner we may periodically specify. We may revoke our approval of your Food and Beverage Operations and other ancillary product and service operations, in the event you fail to provide such products and services in full compliance with all applicable laws, rules and regulations and all applicable Brand Standards.

D. **Management of Your Hotel.** Your Hotel will be managed only by you (or your Principal if you are an Entity) or a management company selected by you and approved by us (the "**Management Company**"). Any lease, management agreement, or other arrangement for operating your Hotel or any part thereof shall be subject to our prior written consent, which may be withheld in our sole discretion. If your Hotel will be managed by a Management Company, the Management Company will enter the Management Company Joinder attached as Exhibit B. By doing so, the Management Company agrees that it is bound by all of the terms of this Agreement as if it were you under this Agreement and agrees that it is jointly and severally liable with you for all your obligations under this Agreement, except with respect to the actual payments of any amounts due to any third parties, our affiliates or pursuant to this Agreement. You must obtain our prior written consent to any change of the Management Company or if you wish to engage a Management Company after the Effective Date, which consent may be withheld in our sole discretion, and will be subject to the proposed Management Company demonstrating the capability to manage your Hotel pursuant to this Agreement and the Brand Standards. In the event we approve a change in the Management Company, the new Management Company must execute our then-current form of joinder agreement.

You are solely responsible for the management, direction and control of your Hotel, regardless of whether you retain a Management Company. We reserve the right to revoke our approval of the Management Company if, in our discretion, the Management Company fails to remain qualified to manage your Hotel. The management agreement between you and the Management Company shall be subject and subordinate to this Agreement and, in the event of any conflict between the management agreement and this Agreement, the controlling contract shall be this Agreement.

E. **Approved Products, Services, and Suppliers.** We and our affiliates reserve the right to periodically designate and approve standards and specifications of the FF&E and the products and services that we periodically authorize for use at your Hotel. We and our affiliates also reserve the right to designate and may approve, from time to time, manufacturers, vendors, distributors, suppliers, and producers (collectively referred to herein as "**vendors**"), terms, and distribution methods for any goods or services (which include, but are not limited to, services, insurance, products, equipment, supplies, and materials).



You shall purchase all goods and services required for the operation of your Hotel in accordance with the standards and specifications we periodically set, and from approved or designated vendors if we have specified approved or designated vendors for a particular good or service (which we may concentrate purchases with one or more vendors to obtain lower prices, better advertising support, and/or better services for any group of franchisees for any given good or service, which may be us or an affiliate) under terms, in the manner, and from the source designated by us or any of our affiliates. We may, at our option, arrange with approved vendors to collect or have our affiliates collect fees and expenses associated with goods and services they provide to you and, in turn, pay the vendor on your behalf for such goods or services. If we elect to do so, you agree that we or our affiliates may auto-debit your bank account for such amounts in the same manner and using the same authorization that you grant us with respect to payment of Royalty and other fees. We or any of our affiliates may be a supplier, distributor, or otherwise party to these transactions, and may derive revenue or profit from such transactions. We and any of our affiliates may use such revenue or profit without restriction.

In the event you desire to purchase equipment, products, services, supplies, or materials, or from vendors, other than those previously approved by us and our affiliates, you shall, prior to purchasing any such equipment, products, services, supplies, or materials, or from such vendor, give us a written request to approve such change and submit to us all information, specifications and samples that we request. Any goods or services from vendors must be in accordance with the then-current Brand Standards. Our approval of any products, services, supplies, materials, or vendors must be made by us in writing and may also be conditioned on requirements relating to the frequency of delivery, standards of service, including prompt attention to complaints, concentration of purchases and other criteria, and may be conditioned on the vendor providing us with adequate insurance protection, the vendor's execution of reasonable indemnity and confidentiality agreements, and the vendor's payment of reasonable license fees to us if the Marks are to be used, and may be temporary or conditional, pending our further evaluation of the vendor. We and our affiliates may, for any reason, withhold or revoke approval of a good, service or vendor at any time, and you must discontinue using the good, service or vendor that we disapprove promptly upon receiving our written notice of disapproval. You acknowledge and agree that suppliers may share your data with us, including your purchase history and quantities purchased, to facilitate discount programs, to allow us to enforce compliance with this Agreement or otherwise. You agree to take all actions or sign all documentation reasonably requested by us or the third-party supplier to allow such exchange of information.

WE MAKE NO WARRANTY WITH RESPECT TO ANY PRODUCTS, SERVICES, EQUIPMENT, SUPPLIES OR OTHER ITEMS WE APPROVE AND WE EXPRESSLY DISCLAIM ALL WARRANTIES, EXPRESS AND IMPLIED, INCLUDING IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO ANY SUCH PRODUCTS, EQUIPMENT, SUPPLIES, OR OTHER APPROVED ITEMS.

F. **Reservation System.** During the Term, we will, directly or indirectly, operate and maintain the computerized Central Reservation System or such substitute as we determine, in our discretion. We or our approved supplier will furnish you with the Central Reservation System and maintenance and support for the Central Reservation System software. You will purchase, install and maintain at your Hotel all equipment necessary for participation in the Central Reservation System, and agree to participate during the Term in any Central Reservation System maintained or designated by us for Brand Hotels and to comply with all terms and conditions of participation, including, but not limited to, any required reservation terminal(s) and related equipment and any enhancements, substitutions or modifications specified by us in the Brand Manual or otherwise in writing. You will be responsible for all telephone line or service charges, data communication equipment, and other charges to connect your equipment to the Central Reservation System. Your Hotel may not book any reservations through any other electronic reservation system or technology other than the Central Reservation System, except as expressly permitted otherwise in this Agreement. You will be responsible for the cost of supplies used in the operation of such equipment and for all other related expenses necessary to the operation of the Central Reservation System.

G. **Periodic Renovations.** Beginning six years after the Renovation Work Completion Date, we periodically may issue a notice to you (a "**Periodic Renovation Notice**") which will require you to meet

with us to conduct an inspection of the Premises and develop a PIP of renovations required for your Hotel and your Hotel's FF&E (the "**Periodic Renovations**"). You will commence the Periodic Renovations within 90 days of receipt of the Periodic Renovation Notice. At the time of each Periodic Renovation Notice, we may require you to upgrade the entirety of your Hotel to conform to the then-current Brand Standards. We will not issue a Periodic Renovation Notice within six years after the date of a prior Periodic Renovation Notice. Notwithstanding the foregoing, nothing in this Agreement shall limit or otherwise excuse your obligation to ensure Guest Rooms and public spaces of your Hotel, including the furniture therein, are in good repair and conform to then-current Brand Standards. You must obtain all necessary insurance, permits, and certifications required for lawful renovation of your Hotel, including zoning, access, sign, building permits, and fire certifications, and if requested by us, you will provide us copies of all such certificates of insurance, permits, and certifications. During Periodic Renovations, we or our representatives may visit your Hotel at any time to observe the renovation work, and you, your contractors and subcontractors will cooperate fully with any such site visits. Upon request, you will submit photographs showing the progress of renovations to us. We may submit any deficiencies or discrepancies to you, and you will promptly cause such items to be corrected. Any notice of deficiencies or discrepancies relate solely to your satisfaction of the Brand Standards and are in no way to be interpreted as a representation or warranty by us that the Periodic Renovations are in compliance with any zoning codes, building codes, environmental codes or municipal, state, or federal law. If any site visits and inspections are necessary to ensure your Hotel complies with the Periodic Renovation Notice and PIP, we may charge our then-current fee for the time spent inspecting your Hotel plus our travel costs and expenses. You agree to renovate, refurbish, remodel, or replace, as necessary and at your own expense, the real and personal property and equipment used in operating your Hotel in connection with each Periodic Renovation.

H. **Compliance with Laws and Good Business Practices.** You must secure and maintain in force throughout this Agreement's term all required licenses, permits and certificates relating to the operation of your Hotel and operate your Hotel in full compliance with all applicable laws, ordinances and regulations. You agree to comply and assist us in our compliance efforts, as applicable, with any and all laws, regulations, Executive Orders or otherwise relating to anti-terrorist activities, including the U.S. Patriot Act, Executive Order 13224, and related U.S. Treasury or other regulations. In connection with such compliance efforts, you agree not to enter into any prohibited transactions and to properly perform any currency reporting and other activities relating to your Hotel as may be required by us or by law. You confirm that you are not listed in the Annex to Executive Order 13224 and agree not to hire any person so listed or have any dealing with a person so listed (the Annex is currently available at <http://www.treasury.gov>). You are solely responsible for ascertaining what actions must be taken by you to comply with all such laws, orders or regulations, and specifically acknowledge and agree that your indemnification responsibilities as provided in Section 15.D pertain to your obligations hereunder. Notwithstanding the foregoing, unless any order issued by any federal, state or local authority requires closure of your Hotel, you will not close your Hotel unless you obtain our prior written consent.

Your Hotel must in all dealings with its customers, suppliers, us and the public adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You must promptly pay all taxes and fees levied and asserted on the Premises and your Hotel's assets and promptly satisfy any other indebtedness or liability to third party vendors that you incur in operating your Hotel. You agree to refrain from any business or advertising practice which might injure our business or the goodwill associated with the Marks or other Brand Hotels. You agree to comply with our Franchise System Website (as defined in Section 9.B below) privacy policy, as it may be amended periodically; you further agree to comply with any requests to return or delete customer personal information, whether requested by us or directly by the customer, as required by applicable data sharing and privacy laws. You must notify us in writing within three business days of: (1) the commencement of any action, suit or proceeding relating to your Hotel; (2) the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality relating to your Hotel; (3) any notice of violation of any law, ordinance or regulation relating to your Hotel; (4) receipt of any notice of complaint from the Better Business Bureau, any local, state or federal consumer affairs department or division, or any other government or independent third party involving a complaint from a client or potential client relating to your Hotel; (5) any notice of default, termination, or other exercise of any default rights or remedies from your landlord, lender or any third party supplier; and (6) written complaints from any customer or potential customer. You must immediately provide to us copies of any

documentation you receive of events in (1) through (5) above, together with any additional information that we reasonably request relating to such notice or underlying matter, and resolve the matter in a prompt and reasonable manner in accordance with good business practices.

I. **Insurance.** During the term of this Agreement you must maintain in force at your sole expense commercial general liability (CGL) insurance, business interruption insurance, property and contents insurance (or builder's risk insurance during any period of construction), workers' compensation insurance, liquor liability (applicable only when or if you distribute, sell, serve, or furnish alcoholic beverages), automobile liability insurance coverage, umbrella or excess liability insurance policies, cyber liability insurance, and terrorism risk insurance, all complying with our specifications as to amount and type of coverage, which we may specify from time to time in writing.

All insurance policies must contain the minimum liability coverage we prescribe from time to time. We may periodically change the amounts of coverage required under these insurance policies or require different or additional insurance coverages (including reasonable excess liability insurance) at any time to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances. All insurance policies for liability coverage must name us and any affiliates we designate as additional insureds, using a form of endorsement that we have approved, and providing us with 30 days' prior written notice of material changes to or cancellation or expiration of all policies. Your insurance policies must contain a waiver of subrogation in favor of the additional insureds and provide primary coverage with any insurance policies we and our affiliates maintain being non-contributory. All insurance policies must be issued by insurance companies with performance ratings of at least "A" as rated in the most recent edition of Best's Insurance Reports or comparable publication. You routinely must furnish us copies of your Certificate of Insurance or other evidence of your maintaining this insurance coverage and paying premiums. If you fail or refuse to obtain and maintain the insurance we specify, in addition to our other remedies, we will charge you our then current fee imposed for failure to maintain the requisite insurance (currently \$500 per month); additionally, we may (but need not) obtain such insurance for you and your Hotel on your behalf, in which event you shall cooperate with us and reimburse us for all premiums, costs and expenses we incur in obtaining and maintaining the insurance, plus a reasonable fee for our time incurred in obtaining such insurance.

Our requirements for minimum insurance coverage are not representations or warranties of any kind that such coverage is sufficient for your Hotel's operations. Such requirements represent only the minimum coverage that we deem acceptable to protect our interests. It is your sole responsibility to obtain insurance coverage for your Hotel that you deem appropriate, based on your own independent investigation. We are not responsible if you sustain losses that exceed your insurance coverage under any circumstances.

Your obligation to maintain insurance coverage will not be limited in any respect by reason of insurance maintained by us or any other party. Additionally, no insurance coverage that you or any other party maintains will be deemed a substitute for your indemnification obligations to us or affiliates under Section 15.D or otherwise.

J. **Restrictions on Use of the Site.** Except as permitted by the Brand Standards, you will not, without our prior approval: (i) knowingly permit gambling to take place at your Hotel or use the Premises or any part of portion thereof for any casino, lottery, or other type of gaming activities, or directly or indirectly associate with any gaming activity; (ii) knowingly permit adult entertainment activities at your Hotel; or (iii) knowingly permit any portion of your Hotel or Premises to be used to operate a pawnshop, check-cashing business, sexually-oriented business, package liquor store, or marijuana dispensary.

K. **Rates and Reservations.** You will provide your prices and rates for use in the Central Reservation System in accordance with the Brand Standards and any then-applicable loyalty program. You will (i) honor any prices, rates or discounts set by you that appear in the Central Reservation system or elsewhere; (ii) honor all reservations made through the Central Reservation System or that are otherwise confirmed; and (iii) not charge any Hotel guest a rate higher than the rate specified in such Hotel guest's reservation confirmation. You will honor all pricing and terms for any other product or service offered in connection with your Hotel.

Unless prohibited by applicable law, we may periodically set a maximum or minimum price that you may charge for Guest Rooms and other products and services offered by Brand Hotels, including terms of promotional or discount programs we may offer to guests of the Brand Hotels. If we impose such a maximum or minimum price for any Guest Room or other product or service, you may charge any price for the Guest Room, product or service up to and including our designated maximum price or down to and including our designated minimum price. The designated maximum and minimum prices for the same Guest Room rate, product or service may, at our option, be the same. For any Guest Room, product or service for which we do not impose a maximum or minimum price, we may require you to comply with an advertising policy adopted by us which will prohibit you from advertising any price for a Guest Room, product or service that is different than our suggested retail price. Although you must comply with any advertising policy we adopt, you will not be prohibited from selling any Guest Room stay or other product or service at a price above or below the suggested retail price unless we impose a maximum price or minimum price for such product or service.

L. **Compliance with Brand Standards.** You acknowledge and agree that operating and maintaining your Hotel according to Brand Standards are essential to preserve the goodwill of the Marks and the goodwill of all Brand Hotels. Therefore, compliance with all Brand Standards is mandatory, and you agree at all times to operate and maintain your Hotel according to each and every Brand Standard, as we periodically modify and supplement them. Though we retain the right to establish and periodically modify Brand Standards which you have agreed to maintain in the operation of your Hotel, you retain the right and sole responsibility for the day-to-day management and operation of your Hotel and the implementation and maintenance of Brand Standards at your Hotel. Brand Standards may regulate any aspect of the development, operation and maintenance of your Hotel, including but not limited to any one or more of the following:

- (1) the appearance and condition of your Hotel;
- (2) operating procedures and platforms (including with respect to OTAs we may approve from time to time);
- (3) sales, marketing, advertising and promotional programs (including coupons and other price-related promotions) and materials and media used in these programs;
- (4) staffing levels for your Hotel and employee qualifications, training, dress and appearance (although you have sole responsibility and authority concerning employment decisions, including selection and promotion, discipline, discharge, hours worked, rates of pay and other benefits, work assigned and working conditions);
- (5) the requirement to either employ a full time certified revenue manager (who meets the minimum qualifications we specify periodically, including completing training in the revenue management system) or participate in our revenue management for hire program and pay us our then current fees for such program;
- (6) use and display of the Marks;
- (7) methods of payment that your Hotel may accept from customers;
- (8) participation in market research and testing and product and service development programs;
- (9) participation in gift card and loyalty card programs;
- (10) pricing;
- (11) bookkeeping, accounting, data processing and record keeping systems and forms; formats, content and frequency of reports to us of sales, revenue, and financial performance and

condition; and giving us copies of tax returns and other operating and financial information concerning the Franchise (we will use reasonable efforts to keep such records confidential);

(12) participation in quality assurance and customer satisfaction programs;

(13) types, amounts, terms and conditions of insurance coverage required for your Hotel, including criteria for your insurance carriers; and

(14) any other aspects of operating and maintaining your Hotel that we determine to be useful to preserve or enhance the efficient operation, image or goodwill of the Marks and Brand Hotels.

You agree that the Brand Standards we periodically prescribe, whether prescribed in the Brand Manual or otherwise communicated to you in writing or another form, are part of this Agreement as if fully set forth within its text. All references to this Agreement include all Brand Standards as periodically modified. You acknowledge that our periodic modification of the Brand Standards (including changes and additions to hotel equipment and hardware and software required for the Computer System, including, but not limited to, the Central Reservation System, the Property Management System, and the Revenue Management System), which may accommodate regional or local variations, may obligate you to invest additional capital in your Hotel and incur higher operating costs.

You agree to comply with any and all modifications or supplements to the Brand Standards at your own expense, as such requirements may be revised from time to time. The cost to you for adaptations and modifications shall not be unreasonable.

M. **Information Security.** You shall abide by all applicable laws pertaining to the data privacy of us, consumers, employees, and your Hotel's transactional information. You also shall comply with our Brand Standards and policies pertaining to data privacy. If there is a conflict between our Brand Standards and policies pertaining to privacy and any applicable law, you shall: (a) comply with the requirements of applicable law; (b) immediately give us written notice of said conflict; and (c) promptly and fully cooperate with us and our counsel in determining the most effective way, if any, to meet our Brand Standards and policies pertaining to data privacy within the bounds of applicable law.

You hereby agree to allow us or our affiliates to process, store, amend and/or delete personal data relating to you, your employees, your Hotel and its business transactions.

You must comply with all applicable laws, including laws related to data privacy and data security laws and regulations that may be applicable to your Hotel, including any requirements of the credit card processing industry, including PCI DSS and any successor standard, and the information that your Hotel collects from its customers and prospective customers, employees and other such third parties, and any information that can be used to identify an individual, including names, addresses, telephone numbers, e-mail addresses, employee identification numbers, signatures, passwords, financial information, credit card information, biometric or health data, government-issued identification numbers and credit report information ("**Personal Information**"). All such laws and regulations are hereinafter called "**Information Privacy Laws.**" Without limiting the generality of the foregoing, your obligations may include:

(1) adopting and implementing adequate measures (hereinafter called "**Security Measures**") to secure the confidentiality of all Personal Information;

(2) providing customers and prospective customers, employees and other third parties with written notice of your and our applicable privacy policies and the uses to be made of Personal Information by you, and by us and our affiliates and the other businesses and companies to whom we or they respectively may disclose Personal Information (hereinafter called the "**Privacy Policy Notice**");

(3) providing customers and prospective customers, employees and other third parties with prior written notice of disclosure of any Personal Information collected from them (hereinafter called "**Disclosure Notice**"); and

(4) providing customers and prospective customers, employees and other third parties with notice of "opt-out" rights regarding such disclosures and uses of their Personal Information and an adequate opportunity to exercise such rights (hereinafter called "**Opt-Out Notice**").

From time to time, we may formulate policies and practices concerning Security Measures, the form, content, and manner of delivering Privacy Policy Notices, Disclosure Notices, and Opt-Out notices, as well as matters relating or incidental thereto. You must adopt and implement all such policies and practices in accordance with written instructions in a timely manner. It is entirely your responsibility (even if we provide you any assistance or guidance in that regard) to confirm that the safeguards you use to protect Personal Information comply with all applicable laws and industry information security best practices related to the collection, access, use, storage, disposal and disclosure of Personal Information.

You agree to immediately (but not later than twenty-four (24) hours, unless sooner required under applicable laws) notify us in writing if you become aware of any actual compromise of system security or data integrity that has led to, or is likely to lead to, the actual destruction, loss, alteration, unauthorized disclosure of, or access to any Personal Information protected by applicable Information Privacy Laws or Confidential Information ("**Security Incident**"). You further agree to cooperate with us and any governmental authorities in taking all reasonable actions necessary to investigate and respond to any Security Incident. We agree to notify you without undue delay and, as may be appropriate, will provide information relating to the Security Incident if and as it becomes known to us. We and you will also take reasonable steps to mitigate and, where possible, to remedy the effects of, any Security Incident, and shall coordinate regarding any notifications to regulators, law enforcement, affected individuals and the press related to any Security Incident.

N. **Employees, Agents and Independent Contractors.** You acknowledge and agree that you are solely responsible for all decisions relating to employees, agents, and independent contractors that you may hire to assist in the operation of your Hotel. You agree that any employee, agent or independent contractor that you hire will be your or the Management Company's employee, agent or independent contractor, and not our employee, agent or independent contractor. You also agree that you are exclusively responsible for the terms and conditions of employment of your employees, including recruiting, hiring, firing, training, compensation, work hours and schedules, work assignments, safety and security, discipline, and supervision. You agree to manage the employment functions of your Hotel in compliance with federal, state, and local employment laws. You must notify all of your employees in writing that they are your employees and not our employees, and you must never contend otherwise.

O. **Non-Disparagement.** You agree not to (and to use your best efforts to cause your current and former shareholders, members, officers, directors, managers, principals, agents, partners, employees, representatives, attorneys, spouses, heirs, affiliates, successors and assigns not to) disparage or otherwise speak or write negatively, directly or indirectly, of us and our current and former parents, subsidiaries, and affiliates, and each such foregoing entity's current and former owners, directors, managers, officers, employees, representatives, agents, franchisees, developers, predecessors, successors, and assigns, and each foregoing individual's current and former spouses, heirs, executors and personal representatives, the Marks, the Franchise System, any Network Hotels, any business using the Marks, any other brand or service-marked or trademarked concept of us or our affiliates, or which would subject any of the foregoing to ridicule, scandal, reproach, scorn, or indignity, or which would negatively impact the goodwill of us, the Marks, Brand Hotels, Network Hotels, or such other brands. The obligations of this Section 8.O shall survive any expiration or termination of this Agreement.

## 9. **MARKETING.**

A. **Brand Promotion Fund.** We have established a brand promotion fund for Brand Hotels (the "**Brand Promotion Fund**"). We will use the Brand Promotion Fund for advertising, marketing, and public relations programs and materials we deem appropriate. Brand Hotels that we or our affiliates own

may not contribute to the applicable Brand Promotion Fund on the same percentage basis as franchisees. We reserve the right to consolidate the Brand Promotion Fund with the brand promotion fund of other brands we or our affiliates maintain so that we maintain and administer one brand promotion fund for all brands or any combination of brands as we determine.

We or our affiliates or other designees will direct all programs that the Brand Promotion Fund finances, with sole control over the creative concepts, materials, and endorsements used and their geographic, market, and media placement and allocation. The Brand Promotion Fund may pay for: preparing and producing video, audio, and written materials and digital media; developing, implementing, and maintaining the Franchise System Website and related strategies; administering national, regional and multi-regional marketing and advertising programs, including purchasing trade journal, direct mail, and other media advertising and using advertising, promotion, and marketing agencies and other advisors to provide assistance; administering online advertising and marketing campaigns (including search engine, social media, email, and display ad campaigns); developing and maintaining application software designed to run on computers and similar devices, including tablets, smartphones and other mobile devices, as well as any evolutions or “next generations” of any such devices, implementing and supporting the loyalty program or other marketing programs designed to encourage the patronage of Brand Hotels; supporting public relations, market research, and other advertising, promotion, and marketing activities; and such other uses as we deem appropriate for the promotion of Brand Hotels and further developing the reputation and image of Brand Hotels. We have sole discretion to determine how we spend these funds, including sole control over the creative concepts, materials, endorsements and media used in the programs, the geographic market in which we place any media and allocation of advertising. We may enter into arrangements for development, marketing, operations, administrative, technical and support functions, facilities, programs, services and personnel with any other entity, including our affiliates.

The Brand Promotion Fund will not be our asset. We will account for the Brand Promotion Fund separately from our other funds and will not use the Brand Promotion Fund for any of our general operating expenses. However, we may use the Brand Promotion Fund to reimburse us or our affiliates or designees for the reasonable salaries and benefits of personnel who manage and administer the Brand Promotion Fund, the Brand Promotion Fund’s other administrative costs, travel expenses of personnel while they are on Brand Promotion Fund business, meeting costs, overhead relating to Brand Promotion Fund business, and other expenses that we incur in activities reasonably related to administering or directing the Brand Promotion Fund and its programs, including conducting market research, public relations, preparing advertising, promotion, and marketing materials, and collecting and accounting for Brand Promotion Fund contributions.

The Brand Promotion Fund is not a trust. We do not owe any fiduciary obligation to you for administering the Brand Promotion Fund or any other reason. We will hold all Brand Promotion Fund contributions for the benefit of the contributors and use contributions for the purposes described in this Section 9.A. The Brand Promotion Fund may spend in any fiscal year more or less than the total Brand Promotion Fund contributions in that year, borrow from us or others (paying reasonable interest) to cover deficits, or invest any surplus for future use. We may use all interest earned on the Brand Promotion Fund contributions to pay costs before using the Brand Promotion Fund’s other assets. We will prepare an annual, unaudited statement of Brand Promotion Fund collections and expenses and give you a copy of the statement upon your written request to us. We may have the Brand Promotion Fund audited annually, at the Brand Promotion Fund’s expense, by an independent certified public accountant. We may incorporate the Brand Promotion Fund or operate it through a separate entity whenever we deem appropriate. The successor entity will have all of the rights and duties specified in this Section 9.A.

We intend for the Brand Promotion Fund to promote recognition of the Marks and patronage of Brand Hotels contributing to the Brand Promotion Fund, and the Sonesta ES Suites brand generally. Although we will try to use the Brand Promotion Fund to develop advertising and marketing materials and programs, and to place advertising and marketing, that will benefit all Brand Hotels contributing to the Brand Promotion Fund, we need not ensure that Brand Promotion Fund expenditures in or affecting any geographic area are proportionate or equivalent to Brand Promotion Fund contributions by Brand Hotels operating in that geographic area or that any Brand Hotel benefits directly or in proportion to its Brand

Promotion Fund contribution from the development of advertising and marketing materials or the placement of advertising and marketing. We have the right, but no obligation, to use collection agents and institute legal proceedings to collect Brand Promotion Fund contributions at the Brand Promotion Fund's expense. We also may forgive, waive, settle, and compromise all claims by or against the Brand Promotion Fund. Except as expressly provided in this Section 9.A, we assume no direct or indirect liability or obligation to you for collecting amounts due to, maintaining, directing, or administering the Brand Promotion Fund.

We may at any time defer or reduce contributions of a Brand Hotel franchise owner and, upon 30 days' prior notice to you, reduce or suspend Brand Promotion Fund contributions and operations for one or more periods of any length and terminate (and, if terminated, reinstate) the Brand Promotion Fund. If we terminate the Brand Promotion Fund, we will, at our option, either spend all unspent monies in accordance with this Section, until such amounts are exhausted, or distribute the funds in the Brand Promotion Fund to the contributing Hotel owners on a pro rata basis.

**B. Franchise System Website.** We have established a Website for the Brand Hotels to advertise, market, and promote Brand Hotels, the products and services that they offer and sell, or the Brand Hotel franchise opportunity (the "**Franchise System Website**"). We will have sole discretion and control over the Franchise System Website (including design, contents and continuation). In connection with the Franchise System Website, we may require you to: (i) provide us the information and materials we request to develop, update, and modify the Franchise System Website with reference to your Hotel information; and (ii) notify us whenever any information on the Franchise System Website is not accurate with respect to your Hotel. We will own all intellectual property and other rights in the Franchise System Website, including your webpage, and all information they contain (including the domain name or URL for your webpage, the log of "hits" by visitors, and any personal or business data that visitors supply).

We will maintain the Franchise System Website and may use the Brand Promotion Fund's assets to develop, maintain, and update the Franchise System Website. We periodically may update and modify the Franchise System Website. You acknowledge that we have final approval rights over all information on the Franchise System Website. We may implement and periodically modify Brand Standards relating to the Franchise System Website. We also may discontinue any Franchise System Website, or consolidate such Franchise System Website with the website of any other brands we or our affiliates maintain, at any time, in our sole discretion.

If you are in default of any obligation under this Agreement or the Brand Standards, then we may, in addition to our other remedies, temporarily remove your Hotel information from the Franchise System Website until you fully cure the default. We will permanently remove your Hotel information from the Franchise System Website upon this Agreement's expiration or termination.

**C. Online Presences.** You may not register, own, maintain or use any Online Presences relating to the Brand Hotels, Network Hotels, or that includes the Network Marks, except as approved in advance by us. As a general rule, we do not permit franchisees to maintain vanity or other independent Online Presences for Brand Hotels. You may not list the details or contact information of your Hotel on any vanity or other independent websites or other Online Presence, including any OTAs, without our prior approval. You must establish any Online Presence that we may require, and only establish any other Online Presence that we authorize. All use of Online Presences must be in accordance with the Brand Standards and our other guidelines, including the implementation and maintenance of and compliance with privacy policies, as applicable. Given the changing nature of this technology, we have the right to withhold our approval, and to withdraw any prior approval, and to modify our requirements, at our sole discretion. You acknowledge and agree that the restrictions on your use of the Marks will survive the expiration or earlier termination of this Agreement.

You acknowledge that you may not, without a legal license or other legal right, post on your Online Presences any material in which any third party has any direct or indirect ownership interest (including video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image in which any third party may claim intellectual property ownership interests). You also agree to incorporate on your Online Presence any other information we require in the manner we deem necessary to protect the Marks.



You must adhere to our Online Presences guidelines and procedures, which include but are not limited to appropriate content, relevance, behavior related to communications, frequency and responsiveness to communications, etiquette, naming conventions, use of the Marks, and posting messages or commentary on third-party websites. We must approve your Online Presences and they shall be linked to any Online Presences related to the Marks or Network Hotels we designate. We have the right to require you to remove your Online Presences if you fail to comply with our guidelines and procedures, as they may change from time to time.

We will own the rights to each Online Presence. At our request, at any time, you agree to grant us access to each such Online Presence, and to take whatever action (including signing assignment or other documents) we request to evidence our ownership of such Online Presence, or to help us obtain exclusive administrative rights in such Online Presence. Upon the expiration or termination of this Agreement, you agree to irrevocably assign and transfer to us (or to our designee) all of your right, title and interest in any domain name listings and registrations and other Online Presence which contain any reference to the Marks, Brand Hotels, or Network Hotels, and will notify the applicable domain name registrar(s) or other third party of the termination of your right to use any domain name or Online Presence associated with the Network Marks, and will authorize and instruct the cancellation or transfer of the Online Presence to us (or our designee), as directed by us. You hereby irrevocably appoint us, with full power of substitution, as your true and lawful attorney-in-fact, which appointment is coupled with an interest, to execute such directions and authorizations as may be necessary or prudent to accomplish the foregoing. To evidence and confirm such appointment, you must execute the form of Collateral Assignment of Online Presences, which is attached hereto as Exhibit C. You also will delete all references to the Marks, Brand Hotels, or Network Hotels from any other Online Presence you own, maintain or operate beyond the expiration or termination of this Agreement.

#### 10. **RECORDS, REPORTS, AND FINANCIAL STATEMENTS.**

You agree to establish and maintain at your own expense a bookkeeping, accounting, and recordkeeping system conforming to the requirements and formats we prescribe from time to time. We may require you to use a Computer System to maintain certain sales data and other information. We may also require you to use a third party approved by us for accounting and bookkeeping services. You agree to give us in the manner and format that we prescribe from time to time:

(a) On or before the 10th day of each month, (i) a report for the preceding month of all revenue generated at your Hotel, the Gross Rooms Revenue of your Hotel, room occupancy rates, reservation data and other information we require, and (ii) the profit and loss and cash flow statements and the balance sheet for the preceding month and year to date for the then current fiscal year;

(b) within 90 days after the end of each fiscal year, annual profit and loss and source and use of funds statements and a balance sheet for your Hotel as of the end of that calendar year, prepared in accordance with generally accepted accounting principles or, at our option, international accounting standards and principles. We reserve the right to require that you have these financial statements and the financial statements of any prior fiscal years audited, at your expense, by an independent accounting firm designated by us in writing;

(c) within ten days after our request, exact copies of federal and state income tax returns, sales tax returns, and any other forms, records, books, and other information we periodically require relating to your Hotel and the Franchise; and

(d) by January 15, April 15, July 15 and October 15 of each calendar year, reports on the status (including the outstanding balance, then-current payment amounts, and whether such loan is in good standing) of any loans outstanding as of the previous calendar quarter for which your Hotel or any of your Hotel's FF&E is collateral. You must also deliver to us, within five days after your receipt, copies of any default notices you receive from any of such lenders. You agree that we or our affiliates may contact your banks, other lenders, and vendors to obtain information regarding the status of loans of the type described herein and your accounts (including payment

histories and any defaults), and you hereby authorize your bank, other lenders, and vendors to provide such information to us and our affiliates.

You agree to provide all financial records in accordance with the chart of accounts we may designate. We may disclose data derived from these reports for any reason as we deem necessary or appropriate, including making a financial performance representation in our franchise disclosure document. Moreover, we may, as often as we deem appropriate (including on a daily basis), access the Computer System and retrieve all information relating to the operation of your Hotel. You agree to preserve and maintain all records in a secure location at your Hotel for at least seven years (including sales checks, purchase orders, invoices, payroll records, customer lists, check stubs, sales tax records and returns, cash receipts and disbursement journals, and general ledgers), or for any longer period that may be required by law.

Further, at our request, you will provide current financial information for your owners and guarantors sufficient to demonstrate such owners' and guarantors' ability to satisfy their financial obligations under their individual guaranties.

11. **INSPECTIONS AND AUDITS.**

A. **Our Right to Inspect your Hotel.** To determine whether you and your Hotel are complying with this Agreement and all Brand Standards, we and our designated agents or representatives, may at all times and without prior notice to you:

- (1) inspect your Hotel;
- (2) photograph your Hotel and observe and videotape the operation of your Hotel for consecutive or intermittent periods we deem necessary;
- (3) remove samples of any products and supplies;
- (4) inspect your Computer System, including hardware, software, security, configurations, connectivity and data access, and other technology used in the operation of your Hotel;
- (5) interview the Management Company, personnel and customers of your Hotel;
- (6) inspect and copy any books, records, and documents relating to the operation of your Hotel including tax returns and financial statements for your Hotel; and
- (7) contract with third parties to conduct mystery-shopper visits or other market-research testing, and quality-assurance inspections at your Hotel, the cost of which you will be required to reimburse to us.

You acknowledge that your obligation to comply with the Brand Standards is unconditional. You agree to cooperate with us fully. If we exercise any of these rights, we will not interfere unreasonably with the operation of your Hotel. You agree to present to your customers the evaluation forms that we periodically prescribe and to participate and request your customers to participate in any surveys performed by or for us. We retain the right to enforce, at our discretion, the Brand Standards as we deem necessary or appropriate in furtherance of our interest in the Brand Hotels. You will not be required to provide more than two (2) nights' accommodations at your Hotel, free of charge, to our representatives in connection with an inspection.

B. **Our Right to Audit.** We and our designated agents or representatives may at any time during your business hours, and without prior notice to you, examine your Hotel, bookkeeping, and accounting records for your Hotel, and sales and income tax records and returns, and other records. At our election, such audit may be performed remotely or electronically without your knowledge. You agree to, and your staff must, cooperate fully with our representatives and independent accountants in any examination. If any examination discloses an understatement of the Gross Rooms Revenue, you agree to

pay us, within 15 days after receiving the examination report, the Royalty and Brand Promotion Fund contributions due on the amount of the understatement, plus our service charges and interest on the understated amounts from the date originally due until the date of payment. Furthermore, if an examination is necessary due to your failure to furnish reports, supporting records, or other information as required, or failure to furnish these items on a timely basis, or if our examination reveals a Royalty or Brand Promotion Fund contribution understatement exceeding two percent (2%) of the amount that you actually reported to us for the period examined, you agree to reimburse us for the costs of the examination, including the charges of attorneys and independent accountants and the travel expenses, room and board, and compensation of our employees. You will not be required to provide more than two (2) nights' accommodations at your Hotel, free of charge, to our representatives in connection with an audit. These remedies are in addition to our other remedies and rights under this Agreement and applicable law.

12. **TRANSFER.**

A. **By Us.** We have the right to transfer or assign this Agreement or any of our rights, obligations, or assets under this Agreement to any person or legal entity so long as the transferee assumes all of our obligations to you under this Agreement.

B. **By You.** You understand and acknowledge that the rights and duties this Agreement creates are personal to you (or to your owners if you are an Entity) and that we have granted you the Franchise in reliance upon our perceptions of your (or your owners') individual or collective character, skill, aptitude, attitude, business ability, and financial capacity. Accordingly, neither this Agreement (or any interest in this Agreement), your Hotel or substantially all of its assets, any direct or indirect ownership interest in you (regardless of its size), nor any ownership interest in any of your owners (if such owners are legal entities) may be transferred without our prior written approval, which consent will not be unreasonably withheld or delayed. You further agree that you will not enter into any proposed mortgage, pledge, hypothecation, encumbrance or giving of a security interest in or which affects your Hotel, this Agreement or your rights under this Agreement without our prior written consent. A transfer of your Hotel ownership, possession, or control, or substantially all of its assets, may be made only with a transfer of this Agreement. Any transfer, or attempt to transfer, without our approval is a breach of this Agreement and has no effect. In this Agreement, the term "**transfer**" includes a voluntary, involuntary, direct, or indirect assignment, sale, gift, or other disposition of any interest in:

- (1) this Agreement;
- (2) you;
- (3) your Hotel or substantially all of its assets; or
- (4) your owners (if such owners are legal entities).

An assignment, sale, gift, or other disposition includes the following events:

- (a) transfer of ownership of capital stock, a partnership or membership interest, or another form of ownership interest, including by way of a public offering or pursuant to a private placement;
- (b) merger or consolidation or issuance of additional securities or other forms of ownership interest;
- (c) any sale of a security convertible to an ownership interest;
- (d) transfer of an interest in you, this Agreement, your Hotel or substantially all of its assets, or your owners in a divorce, insolvency, or entity dissolution proceeding or otherwise by operation of law;

(e) if you, one of your owners, or an owner of one of your owners dies, a transfer of an interest in you, this Agreement, your Hotel or substantially all of its assets, or your owner by will, declaration of or transfer in trust, or under the laws of intestate succession; and

(f) pledge of this Agreement (to someone other than us) or of an ownership interest in you or your owners as security, foreclosure upon your Hotel, or your transfer, surrender, or loss of the possession, control, or management of your Hotel.

If you intend to list your Hotel for sale with any broker or agent, you shall do so only after obtaining our written approval of the broker or agent and of the listing agreement. You may not use or authorize the use of any Mark in advertising the transfer or other disposition of your Hotel or of any ownership in you without our prior written consent. You shall not use or authorize the use of, and no third party shall on your behalf use, any written materials to advertise or promote the transfer of your Hotel or of any ownership interest in you without our prior written approval of such materials.

C. **Conditions for Approval of Transfer.** If you (and your owners) are in full compliance with this Agreement, then you may request our consent to a proposed transfer. We will give your request reasonable consideration but may condition our consent on compliance with certain requirements, including the following:

(1) you have paid all Royalty and Brand Promotion Fund contributions, and other amounts owed to us, our affiliates, and third-party vendors and have submitted all required reports and statements;

(2) you have not violated any provision of this Agreement, the Lease, or any other agreement with us during both the 60-day period before you requested our consent to the transfer and the period between your request and the effective date of the transfer, nor have you received a notice of termination from us;

(3) neither the transferee nor its owners (if the transferee is an Entity) or affiliates have an ownership interest (direct or indirect) in or perform services for a Competitive Business;

(4) the transferee completes to our satisfaction any training, brand introduction and/or orientation program that we require at the time of the transfer;

(5) your landlord, if applicable, allows you to transfer the Lease or sublease the Premises to the transferee;

(6) the transferee agrees (if the transfer is of this Agreement) to meet with us at our request, either virtually or in person, to conduct an inspection of the Premises and develop a PIP for necessary upgrades, remodeling, and refurbishment of your Hotel and your Hotel's FF&E in accordance with our then-current requirements and specifications for Brand Hotels, and complete the Renovation Work therein within 120 days after the effective date of the transfer;

(7) the transferee, at our request, signs our then current form of franchise agreement and related documents, any and all of the provisions of which may differ materially from any and all of those contained in this Agreement;

(8) The transferee shall demonstrate to our satisfaction that the transferee meets our then-current standards for a new franchisee, including educational, managerial, and business standards; possesses a good moral character, business reputation, and credit rating; has the aptitude and ability to operate your Hotel; and has sufficient equity capital to operate your Hotel;

(9) you or the transferee pays us a transfer fee equal to 50% of our then-current Initial Fee. However, no transfer fee is due if, upon a spouse's death, that spouse's interest in this Agreement and your Hotel, or ownership in you, is transferred to the surviving spouse, provided that such transfer is subject to the terms and conditions of this Section 12;

(10) you (and your transferring owners) sign a general release, in a form satisfactory to us, of any and all claims against us and our affiliates and our and their owners, officers, directors, employees, and agents;

(11) you and your owners agree that all of the transferee's obligations under promissory notes, agreements, or security interests reserved in your Hotel are subordinate to the transferee's obligation to pay Royalty, Brand Promotion Fund contributions, and other amounts due to us, our affiliates, and third party vendors and otherwise to comply with this Agreement; and

(12) you and your transferring owners will not directly or indirectly at any time or in any manner (except with respect to other Network Hotels you own and operate) identify yourself or themselves or any business as a current or former Hotel or as one of our franchise owners; use any Mark, any colorable imitation of a Mark, or other indicia of a Brand Hotel in any manner or for any purpose; or utilize for any purpose any trade name, trade or service mark, or other commercial symbol that suggests or indicates a connection or association with us.

We may review all information regarding your Hotel that you give the transferee, correct any information that we believe is inaccurate, and give the transferee copies of any reports that you have given us or we have made regarding your Hotel.

Our approval of a transfer of ownership interests in you as a result of the death or incapacity of the proposed transferor will not be unreasonably withheld or delayed so long as you notify us within three months of the death or incapacity giving rise to such transfer of the intended transferee of the ownership interests, and the Principal designated on Exhibit A continues to be the designated Principal or another individual trained in the operation of a Brand Hotel and with the requisite management experience whom we approve operates your Hotel during the interim period prior to completion of the transfer. If, as a result of the death or incapacity of the transferor, a transfer is proposed to be made to the transferor's spouse, and if we do not approve the transfer, the trustee or administrator of the transferor's estate will have nine months after our refusal to consent to the transfer to the transferor's spouse within which to transfer the transferor's interests to another party whom we approve in accordance with this Section 12.C.

**D. Our Right of First Refusal.**

(1) Prior Notice of Intention to Sell. If you (or any of your owners) at any time determine to sell or transfer for consideration an interest in this Agreement or your Hotel, or an ownership interest in you, in a transaction that otherwise would be allowed under Sections 12.B and 12.C, you must obtain from a responsible and fully disclosed buyer, and promptly send to us in the manner identified in Section 18, below, a true and complete copy of a bona fide, executed written offer to purchase you or substantially all of your assets. The offer must include details of the payment terms of the proposed sale and the sources and terms of any financing for the proposed purchase price. To be a valid, bona fide offer, the proposed purchase price must be in a dollar amount, and the proposed buyer must submit with its offer an earnest money deposit equal to 5% or more of the offering price. The proposed buyer also must complete our then current form of franchise application, and provide us such other personal and financial information as we request to determine whether the buyer satisfies our then-current requirements for new franchisees.

(2) Preemptive Purchase Option. We may, by written notice delivered to you or your selling owner(s) within thirty (30) days after we receive the signed offer letter and all other information we request, elect to purchase you or substantially all of your assets on the same terms and conditions as those offered to the third party, provided that: we shall be entitled to substitute cash for any consideration offered by the prospective purchaser; we shall also be entitled to authorize a third party to acquire the business operation on the same terms and conditions; we or to the third party nominated by us will have an additional ninety (90) days to prepare for closing after notifying you of our election to purchase; and, we must receive, and you and your owners agree to make, all customary representations and warranties given by the seller of the assets of a business or the ownership interests in a legal entity, as applicable.

(3) Completion of Sale. The completion of the sale to us, a third party nominated by us, or the proposed buyer you have identified shall not affect the rights and obligations of the parties accruing prior to the date of transfer. You shall remain liable for all obligations of franchisee accruing prior to the transfer date, including the payment of all amounts due and the transfer fee as required under Section 12.C of this Agreement.

(4) Criteria for Acceptance of Third Parties. Should we decide not to exercise our right of first refusal under this Section 12.D, or should we fail to react to your notification of your intention to sell within the period stated in Section 12.D(2), you may complete the sale to the proposed buyer on the terms and conditions identified in the bona fide offer letter, but only if we otherwise approve the transfer in accordance with, and you (and your owners) and the transferee comply with the conditions in, Sections 12.B and 12.C.

**E. Other Transfers By You.**

(1) Transfer to a Wholly Owned Corporation or Limited Liability Company. Notwithstanding Section 12.C above, if you are in full compliance with this Agreement, you may transfer this Agreement to a corporation or limited liability company which conducts no business other than your Hotel and, if applicable, other Network Hotels in which you maintain management control, and of which you own and control one hundred percent (100%) of the economic interests, equity and voting power of all issued and outstanding ownership interests, provided that all of the assets of your Hotel are owned, and the business of your Hotel is conducted, only by that single corporation or limited liability company. Any such proposed transfer will be subject to the conditions described in Section 12.C, except that we will not require payment of a transfer fee as described in Section 12.C.(9); provided, that you reimburse us for any direct costs we incur in connection with documenting and otherwise processing such transfer, including reasonable legal fees. You (and your owners) agree to remain personally liable under this Agreement as if the transfer to the corporation or limited liability company did not occur.

(2) Commercial Leases. You may lease or sublease commercial space in your Hotel that is customarily subject to lease, or enter into concession arrangements in the ordinary course of business at your Hotel, only with notice to us and with our prior written consent.

(3) Brick and Mortar Transfers. You may sell, lease or transfer your Hotel, your Hotel site, or any portion thereof if, in our reasonable judgment, after the sale, you retain possession and control of your Hotel site and the management control of your Hotel operations and continue to comply with the requirements of Section 7.A, provided you give us at least 60 days' prior notice of the proposed transfer, and any information related to the Transfer that we may reasonably require. If, in our reasonable judgment, the Transfer will result either in (a) your loss of possession or control of your Hotel or Hotel site or management of your Hotel, or (b) a material change in your financial condition, the sale will then be considered a change of ownership and you must comply with the provisions of Section 12.C.

(4) Pledge to Lending Institution. Notwithstanding any other provision of this Agreement, you do not need to notify us to obtain our approval if you want to pledge or mortgage the assets of your Hotel to a third-party bank or other commercial lending institution that is not a Competitive Business. However, you do need to notify us and obtain our consent if you want to pledge or mortgage your interest in this Agreement or any Equity Interest. As a condition to our giving our consent to a pledge or mortgage of this Agreement or any Equity Interest we will require the lender to sign a lender comfort letter that describes our requirements on foreclosure. If the lender desires to continue to operate a Brand Hotel, the lender will be required to conform to the lender comfort letter approved by us at our reasonable discretion or, if no lender comfort letter was signed, then it must meet the terms and conditions of Section 12.C. References in this Agreement to "**Equity Interest**" means any direct or indirect beneficial interest in the Franchisee.

(5) Public or Private Offering. Written information used to raise or secure funds can reflect upon us and the Marks. You agree to submit any written information intended to be used

for that purpose to us at least twenty (20) days before the date you distribute those materials, or file them with any governmental agency, including in any registration statement, prospectus or similar offering memorandum. Should we object to any reference to us or our affiliates or any of our business in the offering literature or prospectus, the literature or prospectus shall not be used until our objections are withdrawn. You may not engage in a public offering of securities without our prior written consent.

You must pay us an amount equal to fifty percent (50%) of our then current Initial Fee in connection with such offering. You also may not use any of the Marks or otherwise imply our or any of our affiliates' participation or endorsement of any securities offering. We will have the right to approve any description of this Agreement or of your relationship with us, or any use of the Marks, contained in any prospectus or other communications or materials you use in the sale or offer of any securities. You may not imply our or any of our affiliate's participation in or endorsement of any such securities. To the extent we give you any comments to your documents which are related in any way to this Agreement or the Brand Hotels or Network Hotels, you must modify the documents to address those comments, satisfactory to us, before filing or distributing the documents. Our review of these documents will not in any way be considered our agreement with any statements contained in those documents, including any projections, or our acknowledgment or agreement that the documents comply with any applicable laws.

You may not sell any securities unless you do so in compliance with all applicable federal and state securities laws, and unless you clearly disclose to all purchasers and offerees that (i) neither we, nor any of our affiliates, nor any of our or their respective owners, officers, directors, agents or employees, will in any way be deemed an issuer or underwriter of said securities, and that (ii) we, our affiliates, and our respective owners, officers, directors, agents and employees have not assumed and will not have any liability or responsibility for any financial statements, prospectuses or other financial information contained in any "prospectus" or similar written or oral communication. You agree to indemnify, defend and hold the Indemnified Parties free and harmless of and from any and all liabilities, costs, damages, claims or expenses arising out of or related to the sale or offer of any of your securities to the same extent as provided in Section 15.D of this Agreement. As used in this Section the terms "prospectus," "issuer," "underwriter," "securities," "offer," "sell," and "sale" have the meanings defined in the Securities Act of 1933, as amended.

F. **Effect of Consent to Transfer.** Our consent to a transfer of this Agreement and your Hotel, or any interest in you or your owners, is not a representation of the fairness of the terms of any contract between you and the transferee, a guarantee of your Hotel or transferee's prospects of success, or a waiver of any claims we have against you (or your owners) or of our right to demand full compliance by you and the transferee with this Agreement.

### 13. **EXPIRATION OF THIS AGREEMENT.**

A. **Your Right to Acquire a Successor Franchise.** When this Agreement expires:

(1) if you (and each of your owners) have substantially complied with this Agreement during its term; and

(2) if you (and each of your owners) are, both on the date you give us written notice of your election to acquire a successor franchise (as provided in Section 13.B. below) and on the date on which the term of the successor franchise would commence, in full compliance with this Agreement and all Brand Standards; and

(3) provided that, and in conjunction with Section 13.A(4) below, (a) you maintain possession of and agree (regardless of cost) to remodel or expand your Hotel, add or replace improvements and FF&E, and otherwise modify your Hotel as we require to comply with Brand Standards then applicable for new Brand Hotels, or (b) at your option, you secure a substitute

premises that we approve and you develop those premises according to Brand Standards then applicable for Brand Hotels; and

(4) provided that if we so require, you transition your Hotel into a different brand concept that we (or an affiliate) offer, including remodeling your Hotel as necessary, adding or replacing improvements and FF&E, replacing the Marks wherever they appear (including without limitation signage, advertising materials and stationery), and complying with all of the then-current brand standards applicable to the new brand concept,

then you may acquire a successor franchise to operate your Hotel as a Brand Hotel for one additional 10 year term, subject to the terms and conditions in Sections 13.B and 13.C, below.

B. **Grant of a Successor Franchise.** You agree to give us written notice of your election to acquire a successor franchise no more than one year and no less than nine months before this Agreement expires. We agree to give you written notice ("**Our Notice**"), not more than 90 days after we receive your notice, of our decision:

(1) to grant you a successor franchise;

(2) to grant you a successor franchise on the condition that you correct existing deficiencies of your Hotel or in your operation of your Hotel;

(3) to grant you a successor franchise on the condition that you transition your Hotel into a different brand concept, in accordance with Section 13.A(4) of this Agreement;

(4) not to grant you a successor franchise based on our determination that you and your owners have not substantially complied with this Agreement during its term or were not in full compliance with this Agreement and all Brand Standards on the date you gave us written notice of your election to acquire a successor franchise; or

(5) not to grant you a successor franchise because we no longer grant franchises for Brand Hotels.

If applicable, Our Notice will:

(a) describe the remodeling, expansion, improvements, or modifications required to bring your Hotel into compliance with then applicable Brand Standards for Brand Hotels (or the different brand concept, if applicable); and

(b) state the actions you must take to correct operating deficiencies and the time period in which you must correct these deficiencies.

If we elect not to grant you a successor franchise, Our Notice will describe the reasons for our decision. If we elect to grant you a successor franchise, your right to acquire a successor franchise is subject to your full compliance with all of the terms and conditions of this Agreement through the date of its expiration, in addition to your compliance with the obligations described in Our Notice.

C. **Agreements/Release.** In order to acquire a successor franchise, you must satisfy all of the other conditions for a successor franchise and you and your owners agree to execute the form of franchise agreement and any ancillary agreements we then customarily use in granting franchises for Brand Hotels (modified as necessary to reflect the fact that it is for a successor franchise) or for hotels of the different brand concept, if applicable, which may contain provisions that differ materially from any and all of those contained in this Agreement. We will waive the Initial Fee; however, you must pay a renewal fee in an amount equal to fifty percent (50%) of our then current Initial Fee (for Brand Hotels, or hotels of the different brand concept, if applicable). You and your owners further agree to sign general releases, in a form satisfactory to us, of any and all claims against us and our affiliates and our and their owners, officers,



directors, employees, agents, successors, and assigns. We will consider your or your owners' failure to sign these agreements and releases and to deliver them to us for acceptance and execution (together with the renewal fee) within 30 days after their delivery to you to be an election not to acquire a successor franchise.

#### 14. **TERMINATION OR SUSPENSION OF AGREEMENT.**

A. **Termination or Suspension by Us on Advance Notice.** Except in the case of an immediate termination as provided in Section 14.B below, we have the right to terminate this Agreement if you fail to cure an Event of Default within 30 days after we furnish notice of default to you based on the Event of Default, or, if there is a non-monetary Event of Default that is incapable of cure within 30 days, if you fail to diligently pursue cure of such default and fail to cure the default within the additional time periods we set forth in the notice of default.

(1) An “**Event of Default**” will occur if you fail to satisfy or comply with any of the obligations, requirements, conditions, or terms set forth in (i) this Agreement, the Brand Standards (including the minimum performance scores required by the Brand Manual), or any attachment to this Agreement; or (ii) any other agreement you have with us, or an Entity, relating to your Hotel, including, any computer system agreement, or any agreement to manage your Hotel. An “Event of Default” will also occur if you make any misrepresentations to us, whether in entering into this Agreement, or in the performance of your obligations to us.

(2) Our notice of termination will not relieve you of your obligations under this Agreement or any of its attachments.

(3) Upon notice of an Event of Default, we also may at any time, at our sole discretion, suspend our obligations under this Agreement (including Central Reservation Services as more fully described below) and may remove the listing of your Hotel from any directories we publish, and from any advertising we publish, or to remove or suspend you from the Central Reservation System immediately without notice to you, and/or rescind any terms to this Agreement that were negotiated between the parties. We will have the right to divert reservations previously made for your Hotel to other Network Hotels after giving you notice of an Event of Default. If you fully cure the Event of Default within the time provided in our notice, including payment of any amounts accruing to us under this Agreement after the date of our notice, and further including payment of our then applicable administrative fee for resumption of services, we will restore you to the Central Reservation System, and add you to all future directories we publish and to all advertising we subsequently disseminate (except advertising that was ordered before your reinstatement), but we will not be required to redirect to you any reservations previously made for your Hotel and diverted to other Network Hotels during the period of suspension or removal, and you will be entitled to no compensation in connection with our election to suspend or remove your Hotel from our directories, advertising or the Central Reservation System. You agree that our exercise of these rights will not result in actual or constructive termination of this Agreement, and that the rights granted to us in this Section 14.A.(3) are in addition to, and apart from, any other rights we may have in this Agreement, including our right to terminate this Agreement. If we exercise any of these rights, the exercise will not be a waiver of any breach by you of any term, covenant or condition of this Agreement.

B. **Immediate Termination by Us.** We have the right to terminate this Agreement immediately upon notice to you (or terminate it at the earliest time permitted by applicable law) if one or more of the following breaches to this Agreement or any of its attachments occur:

(1) After curing any Event of Default of this Agreement or the Brand Standards you engage in the same noncompliance within any consecutive 24 month period, or you fail on three or more separate occasions within any 12 consecutive month period to comply with this Agreement, whether or not the noncompliance is corrected after notice; or after we have notified you of your noncompliance with any of the requirements imposed by this Agreement or the Brand Standards, regardless of materiality, you engage in a pattern of noncompliance with any of those requirements,

whether or not the noncompliance is corrected after notice, which pattern of non-compliance in and of itself will be deemed material;

(2) You or any guarantor of your obligations under this Agreement:

a. Fail to pay us (or our affiliates) any amounts due and do not correct the failure within ten days after we deliver written notice of that failure to you;

b. Generally fails to pay your or its debts as they become due, including to the lessor of Premises (if leased) and any other amounts owed in connection with your Hotel; admits in writing your or its insolvency or inability to pay its debts or obligations as they become due; your or its liabilities exceed its assets; or makes a general assignment for the benefit of your or its creditors;

c. Commence any case, proceeding or other action seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of you or it or your or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for you or it or for all or any substantial part of your or its property;

d. Take any corporate or other action to authorize any of the actions set forth above in Section 14.B(2)b or 14.B(2)c;

e. Suffer initiation of any case, proceeding or other action against you or it seeking to have an order for relief entered against you or it as debtor, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of you or it or your or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for you or it or for all or any substantial part of your or its property, and such case, proceeding or other action (i) results in the entry of an order for relief against you or it which is not fully stayed within seven business days after the entry of the order or (ii) remains undismissed for 45 days;

f. Allow an attachment to remain on all or a substantial part of your Hotel or of your or its assets for 30 days;

g. Fail within 60 days of the entry of a final judgment against you or it in any amount exceeding \$100,000 to discharge, vacate or reverse the judgment, or to stay execution of it, or if appealed, to discharge the judgment within 30 days after a final adverse decision in the appeal;

h. Lose possession or the right to possession of all or a significant part of your Hotel or Hotel site, whether through foreclosure, loss of lease, or for other reasons;

i. Fail to complete the Renovation Work set forth in the PIP by the Renovation Work Completion Date;

j. Fail to start operating your Hotel by the Opening Date;

k. Fail to continue to identify your Hotel to the public as a Brand Hotel, or abandon the operation of your Hotel by failing to operate your Hotel for five consecutive days, or any shorter period after which it is not unreasonable under the facts and circumstances for us to conclude that you do not intend to continue to operate your Hotel, unless the failure to operate is due to fire, flood, earthquake or similar causes beyond your control, provided that you have taken reasonable steps to minimize the impact of such events;

- l. Contest in any court or proceeding our ownership of the Marks or any part of the Franchise System, or the validity of any of the Marks;
- m. Take any action toward dissolving or liquidating yourself or itself, if you or it are a corporation, limited liability company or partnership, except for death of a partner;
- n. Any of the owners of a controlling Equity Interest are or have been convicted by a trial court of, or plead or have pleaded no contest to, a felony (or any other offense or conduct that we reasonably determine is likely to adversely reflect upon your Hotel, the Marks, the Network Hotels, us or our subsidiaries or affiliates);
- o. Conceal revenue, maintain false books and records of accounts, submit false reports or information to us, or otherwise attempt to defraud us or any third-party in connection with the operation of your Hotel;
- p. Engage in any dishonest or unethical conduct which, in our opinion, adversely affects your Hotel's reputation or the goodwill associated with the Marks;
- q. Knowingly make any unauthorized use or disclosure of any part of the Brand Manual or any other Confidential Information;
- r. Fail to pay when due any federal state income, service, sales, or other taxes due on your Hotel's operation, unless you are in good faith contesting your liability for these taxes;
- s. Fail to comply with any other provision of this Agreement, any other agreement you have entered with us or any Brand Standard and do not correct the failure within 30 days after we deliver written notice of the failure to you;
- t. Become a Competitive Business;
- u. Transfer any interest in this Agreement or in your Hotel other than in the transaction that we have approved (unless the transfer is of a type described in Section 12 where our approval or consent is not required); or
- v. Do not purchase or maintain insurance required by this Agreement, or do not reimburse us for our purchase of insurance on its behalf;
- w. Fail to obtain or maintain the licenses required to operate your Hotel;
- x. Information involving you or your affiliates, whether provided by you under Section 10 or obtained through our own investigation, discloses facts concerning you or your affiliates, including your respective officers, directors, shareholders, partners or members, or your Hotel, or title to the property on which your Hotel is constructed or any other property used by your Hotel, which, in our reasonable opinion is likely to adversely reflect upon, any gaming licenses or permits held by us or our subsidiaries or affiliates or the then current stature of any of us or our subsidiaries or affiliates with any gaming commission, board, or similar governmental or regulatory agency, or our reputation or business or the reputation or business of any of us or our subsidiaries or affiliates;
- y. We make a reasonable determination that continued operation of your Hotel by you will result in an imminent danger to public health or safety (provided that, we may, in our discretion, require you to close your Hotel temporarily until you have rectified the dangerous situation and permit you to re-open your Hotel once there is no longer an imminent danger to public health or safety);

z. You violate any law, ordinance, rule or regulation of a governmental agency in connection with the operation of your Hotel and fail to correct such violation within 72 hours after you receive notice from us or any other party; or

aa. Any guarantor of your obligations under this Agreement breaches his or her guaranty, if any, or any guaranty fails to be a continuing obligation fully enforceable against the person(s) signing the guaranty, or if there is any inadequacy of the guaranty or guarantor, and the guarantor fails to provide adequate assurances to us as we may reasonably request.

**C. Our and your Rights and Obligations Upon Termination or Expiration of this Agreement.**

(1) Payment of Amounts Owed to Us. You agree to pay us within 15 days after this Agreement expires or is terminated, or on any later date that we determine the amounts due to us, the Royalty, Brand Promotion Fund contributions, interest, and all other amounts owed to us (and our affiliates) which then are unpaid.

(2) Cessation of Operations; De-Identification. When this Agreement expires or is terminated for any reason:

a. you must cease all use, direct or indirect, of any Mark, any colorable imitation of a Mark, or other indicia of a Brand Hotel in any manner or for any purpose; and must not use for any purpose any trade name, trade or service mark, or other commercial symbol that indicates or suggests a connection or association with us;

b. you may not directly or indirectly at any time or in any manner identify yourself or any business as a current or former franchisee or Hotel (except with other Network Hotels you own and operate) and you agree to take the action required to cancel all fictitious or assumed name or equivalent registrations relating to your use of any Mark;

c. you agree to deliver to us or destroy (as we require), at your expense, within 30 days all signs, marketing materials, forms, and other materials containing any Mark or otherwise identifying or relating to a Brand Hotel, including copies of all Confidential Information, and allow us, without liability to you or third parties, to remove these items from your Hotel;

d. you agree promptly and at your own expense to make the alterations we specify in the Brand Manual (or otherwise) to distinguish your Hotel clearly from its former appearance and from other Brand Hotels in order to prevent public confusion;

e. you agree to immediately cease using and, at our discretion, either disable or instruct the registrar of any Contact Identifier or Online Presence to transfer exclusive control of and access to such Contact Identifier or Online Presence to us (or our designee), as we determine in our discretion;

f. you comply with all other Brand Standards we periodically establish (and all applicable laws) in connection with the closure and de-identification of your Hotel, including as it relates to disposing of Personal Information, in any form, in your possession or the possession of any of your employees; and

g. you agree to give us, within 30 days after the expiration or termination of this Agreement, evidence satisfactory to us of your compliance with these obligations.

**D. Confidential Information.** You agree that, when this Agreement expires or is terminated, you will immediately cease using all of our Confidential Information (including computer software or similar

technology and digital passwords and identifications that we have licensed to you or that otherwise are proprietary to us or our affiliates) in any business or otherwise and return to us all copies of the Brand Manual and any other confidential materials that we have loaned you or to which we have given you access.

E. **Non-Interference.** You agree that, for two years beginning on the effective date of termination or expiration, neither you nor any of your owners, your or your owners' Affiliates, or the officers, directors, managers or immediate family members of any of the foregoing, will:

- (1) interfere or attempt to interfere with our or our affiliates' relationships with any vendors or consultants; or
- (2) engage in any other activity which might injure the goodwill of the Marks or the Brand Hotels.

F. **Reservations.** Your Hotel will honor any advance reservations, including group bookings made for your Hotel prior to the termination at the rates and on the terms established when the reservations are made and pay when due all related travel agent commissions. You acknowledge and agree that once a termination or expiration date for this Agreement has been established in accordance with the provisions of this Agreement, we may stop accepting reservations through the Central Reservation System for any persons seeking to make a reservation for a stay on any date on or after the Termination or expiration of this Agreement. In addition, when this Agreement terminates or expires for any reason, we have the right to contact those individuals or entities who have reserved rooms with you through the Central Reservation System to inform them that your lodging facility is no longer part of the System. We further have the right to inform those guests of other facilities within the System that are near your Hotel in the event that the guests prefer to change their reservations. You agree that the exercise of our rights under this Section will not constitute interference with your contractual or business relationship.

G. **Damages.**

(a) **Lost Revenue Damages.** In order to preserve the Franchise System in the interest of all franchisees, it is necessary to protect the relevant trade secrets and know-how and prevent its disclosure to Competitive Businesses. If we terminate this Agreement because of your breach or if you terminate this Agreement without cause, you and we agree that it would be difficult, if not impossible, to determine the amount of damages that we would suffer due to the loss or interruption of the revenue stream we otherwise would have derived from your continued payment of Royalties, and that the Brand Promotion Fund would have otherwise derived from your continued contributions, through the remainder of the term of this Agreement. Therefore, you and we agree that a reasonable estimate of such damages, which are damages for the future profits lost to us due to the premature termination of this Agreement, and not as a penalty or as damages for breaching this Agreement, or in lieu of any other payment, less any cost savings we might have experienced (the "**Lost Revenue Damages**"), is an amount equal to the net present value of the Royalties and contributions to the Brand Promotion Fund that would have become due had this Agreement not been terminated, from the date of termination to the scheduled expiration of the term of this Agreement. For the purposes of this Section, Lost Revenue Damages shall be calculated as follows: (1) the lesser of 36 or the number of full and partial calendar months remaining in the Term, multiplied by (2) the aggregate of the Royalty fee and Brand Promotion Fund contribution percentages, multiplied by (3) the average monthly Gross Rooms Revenue of your Hotel during the 36 full calendar months immediately preceding the termination date; provided, that if as of the termination date your Hotel has not been operating for at least 36 months, the average monthly Gross Rooms Revenue shall be based on the average Gross Rooms Revenue of your Hotel for all full calendar months during the period commencing on the Opening Date and ending as of the last full calendar month immediately preceding the date of termination.

You agree to pay us Lost Revenue Damages, as calculated in accordance with this Section, within fifteen (15) days after this Agreement is terminated, or on any later date that we determine. You and we agree that the calculation described in this Section is a calculation only of

the Lost Revenue Damages and that nothing herein shall preclude us or limit us from proving and recovering any other damages caused by your breach of the Agreement.

(b) **De-Identification Damages.** If within 30 days after the termination or expiration of this Agreement, you fail to comply with your obligations under Section 14.C.(2), we or our agents, at your expense, may enter the Premises of your Hotel to comply with the provisions of Section 14.C.(2), without being deemed guilty of or liable for trespass or any other tort, and make or cause to be made such changes at your expense. You will pay us \$500 for each day in which you are in breach of your de-identification obligations under this Agreement, plus all expenses that we incur, upon demand. If you are selling or otherwise transferring your Hotel to a third-party who does not desire to operate your Hotel as a Brand Hotel using the Marks, you must complete all of your de-identification obligations immediately prior to closing on the sale of your Hotel. If you fail to comply with your de-identification obligations, we and our affiliates will be entitled to recover all losses, costs, expenses and damages caused by that failure. We and our affiliates will also be entitled to relief by injunction, and any other right or remedy at law or in equity to enforce our rights under this Agreement.

(c) **Unauthorized Opening Damages.** Opening your Hotel under the Marks before we authorize you to open will constitute unauthorized use of the Marks and a material breach of this Agreement. Recognizing the difficulty of ascertaining damages for such a breach, you agree to pay to us, as liquidated damages, solely for the damage to Marks and not as a penalty, \$5,000 per day to compensate us for the damage to the Marks. You also agree to reimburse us for our costs, including attorneys' fees, incurred in enforcing our rights. These damages do not limit any other remedies we may have, at law or in equity.

H. **Continuing Obligations.** All of our and your (and your owners') obligations which expressly or by their nature survive this Agreement's expiration or termination will continue in full force and effect subsequent to and notwithstanding its expiration or termination and until they are satisfied in full or by their nature expire.

## 15. **RELATIONSHIP OF THE PARTIES/INDEMNIFICATION.**

A. **Independent Contractors.** You and we understand and agree that this Agreement does not create a fiduciary relationship between you and us, that you and we are and will be independent contractors, and that nothing in this Agreement is intended to make either you or us a general or special agent, joint venturer, partner, or employee of the other for any purpose. You agree to identify yourself conspicuously in all dealings with customers, suppliers, public officials, your personnel, and others as the owner of your Hotel under a franchise we have granted and to place notices of independent ownership on the forms, business cards, stationery, advertising, and other materials we require from time to time.

You also acknowledge that you will have a contractual relationship only with us and may look only to us to perform under this Agreement.

B. **No Liability to or for Acts of Other Party.** We and you may not make any express or implied agreements, warranties, guarantees, or representations, or incur any debt, in the name of or on behalf of the other or represent that our respective relationship is other than franchisor and franchise owner. We will not be obligated for any damages to any person or property directly or indirectly arising out of the operation of your Hotel or the business you conduct under this Agreement. We will have no liability for your obligations to pay any third parties, including any product vendors.

C. **Taxes.** We will have no liability for any sales, use, service, occupation, excise, gross receipts, income, property, or other taxes, whether levied upon you or your Hotel, due to the business you conduct (except for our income taxes). You are responsible for paying these taxes promptly and must reimburse us for any such taxes that we must pay to any state taxing authority on account of your operation or payments that you make to us.

D. **Indemnification.** You agree to indemnify, defend, and hold harmless us, our parents, subsidiaries and affiliates, and each foregoing entity's current and former owners, shareholders, directors, managers, officers, employees, agents, predecessors, successors, and assignees (the "**Indemnified Parties**") against, and to reimburse any one or more of the Indemnified Parties for, all claims, obligations, and damages directly or indirectly arising out of the development or operation of your Hotel, the business you conduct under this Agreement, or your breach of this Agreement, including those alleged to be caused by the Indemnified Party's negligence, unless (and then only to the extent that) the claims, obligations, or damages are determined to be caused solely by the Indemnified Party's intentional misconduct in a final, unappealable ruling issued by a court with competent jurisdiction. For purposes of this indemnification, "**claims**" include all obligations, damages (actual, consequential, or otherwise), and costs that any Indemnified Party reasonably incurs in defending any claim against it, including reasonable accountants', arbitrators', attorneys', and expert witness fees, costs of investigation and proof of facts, court costs, travel and living expenses, and other expenses of litigation or alternative dispute resolution, regardless of whether litigation or alternative dispute resolution is commenced. Each Indemnified Party may, at its discretion and at your expense, control the defense of any claim against it (including choosing and retaining its own legal counsel), agree to settlements of claims against it, and take any other remedial, corrective, or other actions in response to such claims. This indemnity will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination. An Indemnified Party need not seek recovery from any insurer or other third party, or otherwise mitigate its losses and expenses, in order to maintain and recover fully a claim against you under this subparagraph. You agree that a failure to pursue a recovery or mitigate a loss will not reduce or alter the amounts that an Indemnified Party may recover from you under this subparagraph.

## 16. **CONDEMNATION AND CASUALTY**

A. **Condemnation.** You must immediately inform us of any proposed taking of all or any portion of your Hotel by eminent domain. If, in our sole discretion, the taking is significant enough to render operation of your Hotel in accordance with this Agreement and the Brand Standards impractical, then we may terminate this Agreement on written notice, effective as of the day of the consummation of the actual taking (a "**Condemnation Termination**"). In the event of a Condemnation Termination, you will pay all amounts accrued prior to the effective date of the Condemnation Termination and follow the post-termination requirements set forth herein. If such taking, in our business judgment, does not require the termination of this Agreement, then you will make all necessary modifications to make your Hotel conform to its condition, character and appearance immediately before such taking, according to Plans and Designs approved by us. You will take all measures to ensure that the resumption of normal operations at your Hotel is not unreasonably delayed. You will not be obligated to pay Lost Revenue Damages in the event of a Condemnation Termination.

B. **Casualty.** You must immediately inform us if your Hotel, or any part thereof, is damaged by fire or other casualty. If such damage or destruction is substantial and material, affecting over fifty percent (50%) of the Guest Rooms of your Hotel, and the reasonable estimated cost to repair the damage exceeds the fair market value of your Hotel, you shall immediately notify us and elect, by written notice to us within sixty (60) days following the date of the casualty, to repair or rebuild your Hotel in accordance with the Brand Standards or to terminate this Agreement ("**Casualty Termination Notice**"). Any such Casualty Termination Notice shall be effective sixty (60) days after receipt of such notice by us. In the event you fail to send a Casualty Termination Notice, you shall be deemed to have elected to repair or rebuild your Hotel in accordance with the Brand Standards. If you elect to repair the damage, you will complete restoration within 180 days after the casualty. We may terminate this Agreement by written notice to you if you fail to rebuild your Hotel to the Brand Standards and recommence operations within the time periods specified in this Section. If you elect to repair the damages done to your Hotel pursuant to this Section, we reserve the right to require you to repair both the damaged and undamaged portions of your Hotel to our then-current Brand Standards. In the event you terminate this Agreement due to casualty, you will not be obligated to pay Lost Revenue Damages.

17. **ENFORCEMENT.**

A. **Severability and Substitution of Valid Provisions.** Except as expressly provided to the contrary in this Agreement, each section, paragraph, term, and provision of this Agreement is severable, and if, for any reason, any part is held to be invalid or contrary to or in conflict with any applicable present or future law or regulation in a final, unappealable ruling issued by any court, agency, or tribunal with competent jurisdiction, that ruling will not impair the operation of, or otherwise affect, any other portions of this Agreement, which will continue to have full force and effect and bind the parties.

If any covenant which restricts competitive activity is deemed unenforceable by virtue of its scope in terms of area, business activity prohibited, or length of time, but would be enforceable if modified, you and we agree that the covenant will be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction whose law determines the covenant's validity.

If any applicable and binding law or rule of any jurisdiction requires more notice than this Agreement requires of this Agreement's termination or of our refusal to enter into a successor franchise agreement, or some other action that this Agreement does not require, or if, under any applicable and binding law or rule of any jurisdiction, any provision of this Agreement or any Brand Standard is invalid, unenforceable, or unlawful, the notice or other action required by the law or rule will be substituted for the comparable provisions of this Agreement, and we may modify the invalid or unenforceable provision or Brand Standard to the extent required to be valid and enforceable or delete the unlawful provision in its entirety. You agree to be bound by any promise or covenant imposing the maximum duty the law permits which is subsumed within any provision of this Agreement, as though it were separately articulated in and made a part of this Agreement.

B. **Waiver of Obligations.** We and you may by written instrument unilaterally waive or reduce any obligation of or restriction upon the other under this Agreement, effective upon delivery of written notice to the other or another effective date stated in the notice of waiver. Any waiver granted will be without prejudice to any other rights we or you have, will be subject to continuing review, and may be revoked at any time and for any reason effective upon delivery of 10 days' prior written notice. We and you will not waive or impair any right, power, or option this Agreement reserves (including our right to demand exact compliance with every term, condition, and covenant or to declare any breach to be a default and to terminate this Agreement before its term expires) because of any custom or practice at variance with this Agreement's terms; our or your failure, refusal, or neglect to exercise any right under this Agreement or to insist upon the other's compliance with this Agreement, including any Brand Standard; our waiver of or failure to exercise any right, power, or option, whether of the same, similar, or different nature, with other Brand Hotels; the existence of franchise agreements for other Brand Hotels which contain provisions different from those contained in this Agreement; or our acceptance of any payments due from you after any breach of this Agreement. No special or restrictive legend or endorsement on any check or similar item given to us will be a waiver, compromise, settlement, or accord and satisfaction. We are authorized to remove any legend or endorsement, which then will have no effect.

C. **Costs and Attorneys' Fees.** If either party initiates an arbitration, judicial or other proceeding, the prevailing party will be entitled to reasonable costs and expenses (including attorneys' fees incurred in connection with such judicial or other proceeding).

D. **You May Not Withhold Payments Due to Us.** You agree that you will not withhold payment of any amounts owed to us on the grounds of our alleged nonperformance of any of our obligations under this Agreement or for any other reason, and you specifically waive any right you may have at law or in equity to offset any funds you may owe us or to fail or refuse to perform any of your obligations under this Agreement.

E. **Rights of Parties are Cumulative.** Our and your rights under this Agreement are cumulative, and our or your exercise or enforcement of any right or remedy under this Agreement will not preclude our or your exercise or enforcement of any other right or remedy which we or you are entitled by law to enforce.



F. **Arbitration.** We and you agree that all controversies, disputes, or claims between us or any of our affiliates, and our and their respective shareholders, owners, officers, directors, agents, representatives and employees, on the one hand, and you (and your owners, guarantors, affiliates, and employees), on the other hand, arising out of or related to:

- (1) this Agreement or any other agreement between you (or your owners) and us (or our affiliates);
- (2) our relationship with you;
- (3) the scope or validity of this Agreement or any other agreement between you (or your owners) and us (or our affiliates) or any provision of any of such agreements (including the validity and scope of the arbitration obligation under this Section 17.F, which we and you acknowledge is to be determined by an arbitrator, not a court); or
- (4) any Brand Standard,

must be submitted for binding arbitration, on demand of either party, to the American Arbitration Association (“AAA”). The arbitration proceedings will be conducted by one arbitrator and, except as this Section otherwise provides, according to the AAA’s then-current Commercial Arbitration Rules. All proceedings will be conducted at a suitable location chosen by the arbitrator that is within 50 miles of our or, as applicable, our successor’s or assign’s then-current principal place of business (currently, Newton, Massachusetts). All matters relating to arbitration will be governed by the Federal Arbitration Act (9 U.S.C. §§ 1 et seq.). The interim and final awards of the arbitrator shall be final and binding upon each party, and judgment upon the arbitrator’s awards may be entered in any court of competent jurisdiction.

The arbitrator has the right to award or include in his or her awards any relief which he or she deems proper, including, without limitation, money damages, pre- and post-award interest, interim costs and attorneys’ fees, specific performance, and injunctive relief, provided that the arbitrator may not declare any of the trademarks owned by us or our affiliates generic or otherwise invalid, or award any punitive or exemplary damages against any party to the arbitration proceeding (we and you hereby waiving to the fullest extent permitted by law, any such right to or claim for any punitive or exemplary damages against any party to the arbitration proceedings). Further, at the conclusion of arbitration, the arbitrator shall award to the prevailing party its attorneys’ fees and costs.

We and you agree to be bound by the provisions of any applicable contractual or statutory limitations provision, whichever expires earlier. We and you further agree that, in any arbitration proceeding, each party must submit or file any claim which would constitute a compulsory counterclaim (as defined by Rule 13 of the Federal Rules of Civil Procedure) within the same proceeding. Any claim which is not submitted or filed as required will be forever barred. The arbitrator may not consider any settlement discussions or offers that might have been made by either you or us.

We and you agree that arbitration will be conducted on an individual basis and that an arbitration proceeding between us and any of our affiliates, or our and their respective shareholders, owners, officers, directors, agents, representatives and employees, on the one hand, and you (or your owners, guarantors, affiliates, and employees), on the other hand, may not be: (i) conducted on a class-wide basis; (ii) commenced, conducted or consolidated with any other arbitration proceeding; (iii) joined with any separate claim of an unaffiliated third-party; or (iv) brought on your behalf by any association or agent. Notwithstanding the foregoing, if any court or arbitrator determines that all or any part of the preceding sentence is unenforceable with respect to a dispute, controversy or claim that otherwise would be subject to arbitration under this Section, then all parties agree that this arbitration clause shall not apply to that dispute, controversy or claim and that such dispute, controversy or claim shall be resolved in a judicial proceeding in accordance with the dispute resolution provisions of this Agreement.

We and you agree that, in any arbitration arising as described in this Section, the arbitrator shall have full authority to manage any necessary exchange of information among the parties with a view to achieving an efficient and economical resolution of the dispute.

The provisions of this Section are intended to benefit and bind certain third-party non-signatories and will continue in full force and effect subsequent to and notwithstanding the expiration or termination of the Agreements.

Any provisions of this Agreement below that pertain to judicial proceedings shall be subject to the agreement to arbitrate contained in this Section.

G. **Governing Law.** Except to the extent governed by the Federal Arbitration Act, the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.), or other United States federal law, this Agreement, the Franchise, and all claims arising from the relationship between us and you, whether couched in tort or contract, will be governed by the laws of the Commonwealth of Massachusetts, without regard to its conflict of laws rules, except that any state law regulating the offer or sale of franchises or governing the relationship of a franchisor and its franchisee will not apply unless its jurisdictional requirements are met independently without reference to this Section. If any of the provisions of this Agreement which relate to restrictions on you and your owners' competitive activities are found unenforceable under Massachusetts law, the enforceability of those provisions will be governed by the laws of the state in which your Hotel is located.

H. **Consent to Jurisdiction.** Subject to the obligation to arbitrate under Section 17.F above and the provisions below, you and your owners agree that all actions arising under this Agreement or otherwise as a result of the relationship between you and us must be commenced in the court nearest to our or, as applicable, our successor's or assign's then current principal place of business (currently Newton, Massachusetts), and you (and each owner) irrevocably submit to the jurisdiction of that court and waive any objection you (or the owner) might have to either the jurisdiction of or venue in that court.

I. **Waiver of Punitive Damages, Jury Trial, and Class Action.** **EXCEPT FOR YOUR OBLIGATION TO INDEMNIFY US FOR THIRD PARTY CLAIMS UNDER SECTION 15.D, WE AND YOU (AND YOUR OWNERS) WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY RIGHT TO OR CLAIM FOR ANY PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER AND AGREE THAT, IN THE EVENT OF A DISPUTE BETWEEN US AND YOU, THE PARTY MAKING A CLAIM WILL BE LIMITED TO EQUITABLE RELIEF AND TO RECOVERY OF ANY ACTUAL DAMAGES IT SUSTAINS.**

**WE AND YOU IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING BROUGHT BY EITHER OF US.**

**WE AND YOU AGREE THAT ANY PROCEEDING WILL BE CONDUCTED ON AN INDIVIDUAL BASIS AND THAT ANY PROCEEDING BETWEEN US AND ANY OF OUR AFFILIATES, OR OUR AND THEIR RESPECTIVE OWNERS, OFFICERS, DIRECTORS, AGENTS AND EMPLOYEES, ON THE ONE HAND, AND YOU (OR YOUR OWNERS, OFFICERS, DIRECTORS, AGENTS AND EMPLOYEES), ON THE OTHER HAND, MAY NOT BE: (I) CONDUCTED ON A CLASS-WIDE BASIS, (II) COMMENCED, CONDUCTED OR CONSOLIDATED WITH ANY OTHER PROCEEDING, (III) JOINED WITH ANY CLAIM OF AN UNAFFILIATED THIRD-PARTY, OR (IV) BROUGHT ON YOUR BEHALF BY ANY ASSOCIATION OR AGENT.**

J. **Injunctive Relief.** Nothing in this Agreement, including the provisions of Section 17.F, bars our right to obtain specific performance of the provisions of this Agreement and injunctive relief against any threatened or actual conduct that will cause us, the Marks or the Franchise System loss or damage, under customary equity rules, including applicable rules for obtaining restraining orders and temporary or preliminary injunctions. You agree that we may seek such relief from any court of competent jurisdiction in addition to such further or other relief as may be available to us at law or in equity. You agree that we will not be required to post a bond to obtain injunctive relief and that your only remedy if an injunction is entered against you will be the dissolution of that injunction, if warranted, upon due hearing, and you hereby expressly waive any claim for damages caused by such injunction.

K. **Binding Effect.** This Agreement is binding upon us and you and our and your respective executors, administrators, heirs, beneficiaries, permitted assigns, and successors in interest. Subject to

our right to modify the Brand Manual and Brand Standards, this Agreement may not be modified except by a written agreement signed by our and your duly-authorized officers.

L. **Limitations of Claims; No Implied Covenant.** You and your owners agree not to bring any claim asserting that any of the Marks are generic or otherwise invalid. Except with regard to your obligation to pay us and our affiliates Royalty payments, the Brand Promotion Fund contributions and other advertising fees, and other payments due from you pursuant to this Agreement or otherwise, any claims between the parties must be commenced in accordance with this Agreement within one year from the date on which the party asserting the claim knew or should have known of the facts giving rise to the claim, or such claim shall be barred. The parties understand that such time limit might be shorter than otherwise allowed by law. You and your owners agree that your and their sole recourse for claims arising between the parties shall be against us or our successors and assigns. You and your owners agree that our and our affiliates' members, managers, shareholders, directors, officers, employees, representatives and agents shall not be personally liable nor named as a party in any action between us or our affiliates and you or your owners.

No previous course of dealing shall be admissible to explain, modify, or contradict the terms of this Agreement. No implied covenant of good faith and fair dealing shall be used to alter the express terms of this Agreement.

M. **Agreement Effectiveness.** This Agreement shall not be effective until accepted by us as evidenced by dating and signing by an officer or other duly authorized representative of ours. Notwithstanding that this Agreement shall not be effective until signed by us, we reserve the right to make the effective date of this Agreement the date on which you signed the Agreement.

N. **Construction.** The recitals and exhibits are a part of this Agreement which, together with the Brand Standards (which may be periodically modified, as provided herein), constitutes our and your entire agreement, and there are no other oral or written understandings or agreements between us and you, or oral or written representations by us, relating to the subject matter of this Agreement, the franchise relationship, or your Hotel (any understandings or agreements reached, or any representations made, before this Agreement are superseded by this Agreement). Nothing in this or in any related agreement, however, is intended to disclaim the representations we made in the Franchise Disclosure Document that we furnished to you. Any policies that we adopt and implement from time to time to guide us in our decision-making are subject to change, are not a part of this Agreement, and are not binding on us. Except as provided in Section 15.D, nothing in this Agreement is intended or deemed to confer any rights or remedies upon any person or legal entity not a party to this Agreement.

You agree that whenever this Agreement allows or requires us to take actions or make decisions, we may do so in our sole and unfettered discretion, even if you believe our action or decision is unreasonable, unless the Agreement expressly and specifically requires that we act reasonably or refrain from acting unreasonably in connection with the particular action or decision. The headings of the sections and paragraphs are for convenience only and do not define, limit, or construe the contents of these sections or paragraphs.

References in this Agreement to "**we**," "**us**," and "**our**," with respect to all of our rights and all of your obligations to us under this Agreement, include any of our affiliates with whom you deal. The term "**affiliate**" means any person or entity directly or indirectly owned or controlled by, under common control with, or owning or controlling you or us. "**Control**" means the power to direct or cause the direction of management and policies.

If two or more persons are at any time the owners of the Franchise and your Hotel, whether as partners or joint venturers, their obligations and liabilities to us will be joint and several. References to "**owner**" mean any person holding a direct or indirect ownership interest (whether of record, beneficially, or otherwise) or voting rights in you (or a transferee of this Agreement and your Hotel or an ownership interest in you), including any person who has a direct or indirect interest in you (or a transferee), this Agreement, the Franchise, or your Hotel and any person who has any other legal or equitable interest, or the power to vest in himself or herself any legal or equitable interest, in their revenue, profits, rights, or assets.

References to a “**controlling interest**” in you or one of your owners (if an Entity) means the percent of the voting shares or other voting rights that results from dividing one hundred percent (100%) of the ownership interests by the number of owners. In the case of a proposed transfer of an ownership interest in you or one of your owners, the determination of whether a “controlling interest” is involved must be made as of both immediately before and immediately after the proposed transfer to see if a “controlling interest” will be transferred (because of the number of owners before the proposed transfer) or will be deemed to have been transferred (because of the number of owners after the proposed transfer). “**Person**” means any natural person, corporation, limited liability company, general or limited partnership, unincorporated association, cooperative, or other legal or functional entity.

Unless otherwise specified, all references to a number of days shall mean calendar days and not business days. The term “**your Hotel**” includes all of the assets of your Hotel you operate under this Agreement, including its revenue and the Lease. “**Including**” means “including without limitation” and “including, but not limited to” unless otherwise noted.

O. **Lawful Attorney.** Notwithstanding anything otherwise contained in this Agreement, if you do not execute and deliver any documents or other assurances so required of you pursuant to this Agreement or if we take over the management or operation of the business operated hereunder on your behalf for any reason, you hereby irrevocably appoint us as your lawful attorney with full power and authority, to execute and deliver in your name any such documents and assurances, and to manage or operate the business on your behalf, and to do all other acts and things, all in such discretion as we may desire, and you hereby agree to ratify and confirm all of our acts as your lawful attorney and to indemnify and save us harmless from all claims, liabilities, losses, or damages suffered in so doing. You also hereby appoint us as your attorney-in-fact to receive and inspect your confidential sales and other tax records and hereby authorize all tax authorities to provide such information to us for all tax periods during the term of this Agreement.

#### 18. **NOTICES AND PAYMENTS.**

All written notices and notices permitted or required to be delivered by this Agreement or the Brand Manual will be deemed to be delivered on the earlier of the date of actual delivery or one of the following:

- (a) at the time delivered by hand;
- (b) at the time delivered via computer transmission (provided the sender obtains a read receipt from the recipient) and, in the case of the Royalty, Brand Promotion Fund contributions, and other amounts due, at the time we actually receive payment;
- (c) one business day after being placed in the hands of a nationally recognized commercial courier service for next business day delivery; or
- (d) three business days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid.

Notices must be addressed to the party to be notified at its most current principal business address of which the notifying party has notice (which address may not be a P.O. Box), which initially shall be as set forth below, or if to you, notice may be delivered to your Hotel. Any required payment or report which we do not actually receive during regular business hours on the date due (or postmarked by postal authorities at least two days before then) will be deemed delinquent.

If to us: Sonesta RL Hotels Franchising Inc.  
Two Newton Place  
255 Washington Street, Suite 230  
Newton, MA 02458  
Attn: \_\_\_\_\_

If to you: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_

19. **ELECTRONIC MAIL.** You acknowledge and agree that exchanging information with us by e-mail is efficient and desirable for day-to-day communications and that we and you may utilize e-mail for such communications. You authorize the transmission of e-mail by us and our employees, vendors, and affiliates (“**Official Senders**”) to you during the term of this Agreement.

You further agree that: (a) Official Senders are authorized to send e-mails to those of your employees as you may occasionally authorize for the purpose of communicating with us; (b) you will cause your officers, directors and employees to give their consent to Official Senders’ transmission of e-mails to them; (c) you will require such persons not to opt out or otherwise ask to no longer receive e-mails from Official Senders during the time that such person works for or is affiliated with you; and (d) you will not opt out or otherwise ask to no longer receive e-mails from Official Senders during the term of this Agreement.

This consent given in this Section 19 shall not apply to the provision of notice by either party under this Agreement pursuant to Section 18 unless we and you otherwise agree in a written document manually signed by both parties.

20. **COUNTERPARTS.** This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Faxed, scanned or electronic signatures shall have the same effect and validity, and may be relied upon in the same manner, as original signatures.

*(Signature page to follow)*

**IN WITNESS WHEREOF**, the parties have executed and delivered this Agreement to be effective as of the Effective Date.

**SONESTA RL HOTELS FRANCHISING INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
**[Franchisee Name]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Schedule 3.G**

**Booking Fees, Commissions and Other Fees**

**Booking Fees and Commissions:**

Fee	Current Applicable Fees (Subject to Change)
Reservation Fee	\$2.00 to \$10.00 per reservation
Travel Agency Commissions	10% of gross revenue generated from bookings consumed through our Third-Party Distribution Program
Travel Agency Commission Settlement Fee	Currently up to \$0.85 per transaction
Meetings and Events Commission Fee	5% on consumed master folio per group
Direct Connect Fee	\$1.75 per transaction
Brand.com	\$3.50 per transaction
Internet Distribution System (IDS) Fee	\$3.80 per transaction
Global Distribution Systems (GDS) Fee	\$9.50 per transaction
Central Reservations Office (Voice) Fee	\$7.00 per transaction
Hotel to Central Reservations Office Call Program Fee	\$7.00 net reservation
TMC and Consortia Fees	\$3.50 per room per night
TMC Direct Connect Fee	\$5.00 per reservation

Other Fees:

Brand Programs	Current Applicable Fees (Subject to Change)
Technology Fee	Up to \$16 per Guest Room per month
Market Intelligence	\$250 per month
Corporate Account Support Subscription and Services	Up to \$1,000 per year
Local Sales Solution	\$1,700 per month
Guest Relations Program	After the first 4 Guest Relations Cases in a calendar year: \$25 to \$125 per issue
Online Review Response Fee	\$39 to \$150 per response
Quality Assurance Inspections	\$2,000 for the first inspection each year and up to \$5,000 for any re-inspections or inspections resulting from guest satisfaction deficiencies
Revenue Management for Hire	\$695 to \$2,500 per month, depending on number of Guest Rooms and market (only required if you do not have a dedicated revenue manager)
Revenue Management System	\$41.25 per Guest Room per year

Reservation System Maintenance Fee: Rates and Inventory	\$250 to \$1,000 per occurrence
Reservation System Maintenance Fee: Central Reservation System Services	\$150 per occurrence
Brand Conference	\$1,200 per attendee
Email Fee	\$5 per month per email account (except for first three email accounts)



**EXHIBIT A**  
**TO THE FRANCHISE AGREEMENT**  
**BETWEEN SONESTA RL HOTELS FRANCHISING INC.**

**AND**

**DATED \_\_\_\_\_, 20**

**Effective Date: This Exhibit A is current and complete**

**as of \_\_\_\_\_, 20**

**1. Form of Owner.**

(a) **Individual Proprietorship.** Your owner(s) (is) (are) as follows: \_\_\_\_\_  
\_\_\_\_\_

(b) **Corporation, Limited Liability Company, or Partnership.** You were incorporated or formed on \_\_\_\_\_, under the laws of the State of \_\_\_\_\_. You have not conducted business under any name other than your corporate, limited liability company, or partnership name unless indicated in the following: \_\_\_\_\_  
\_\_\_\_\_. Your federal tax identification number is \_\_\_\_\_. The following is a list of your directors, if applicable, and officers as of the effective date shown above:

<b><u>Name of Each Director/Officer</u></b>	<b><u>Position(s) Held</u></b>
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

**2. Owners.** The following identifies the owner that you have designated as, and that we approve to be, the Principal and lists the full name of each person who is one of your owners (as defined in the Franchise Agreement), or an owner of one of your owners, and fully describes the nature of each owner's interest (attach additional pages if necessary).

	<u>Owner's Name</u>	<u>Type / Percentage of Interest</u>
Principal:	_____	_____ %
Other Owners:	_____	_____ %
	_____	_____ %
	_____	_____ %

3. **Hotel Premises:** \_\_\_\_\_

4. **Approved number of Guest Rooms:** \_\_\_\_\_

5. **Opening Date:** \_\_\_\_\_

**SONESTA RL HOTELS FRANCHISING INC.**

By: \_\_\_\_\_  
 Name: \_\_\_\_\_  
 Title: \_\_\_\_\_  
 Date: \_\_\_\_\_

\_\_\_\_\_  
**[Franchisee Name]**

By: \_\_\_\_\_  
 Name: \_\_\_\_\_  
 Title: \_\_\_\_\_  
 Date: \_\_\_\_\_

## EXHIBIT B

### Management Company Joinder Agreement

This Management Company Joinder Agreement (this “**Joinder**”) relates to that certain Franchise Agreement (as amended, modified, restated or supplemented from time to time, the “**Franchise Agreement**”) between Sonesta RL Hotels Franchising Inc. (“**we**” or “**Franchisor**”), and the franchisee entity (“**Franchisee**”), the name and address of which is set forth on Exhibit A to the Franchise Agreement, and is made and entered into effective as of the date set forth underneath Franchisor’s signature below (the “**Effective Date**”). The parties to this Joinder are Franchisor, Franchisee and \_\_\_\_\_, a \_\_\_\_\_ (“**Management Company**”). Terms defined in the Franchise Agreement shall have the same meaning in this Joinder unless expressly stated otherwise.

Recitals. Franchisee and Management Company intend to enter into a management agreement (the “**Management Agreement**”) under which Management Company will manage and operate Franchisee’s Hotel. Under Section 8.D of the Franchise Agreement, Franchisee must obtain Franchisor’s consent (i) to engage a management company for Franchisee’s Hotel, and (ii) to the terms of the management agreement between Franchisee and Management Company. Franchisor has conditioned granting its consent to the Management Agreement with Management Company on the execution and delivery of this Joinder by the Management Company.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged by the parties:

1. Management Company acknowledges and ratifies the terms and conditions of the Franchise Agreement and agrees to observe faithfully and be bound by all terms, conditions and restrictions regarding the management and operation of Franchisee’s Hotel set forth in the Franchise Agreement for as long as Management Company operates Franchisee’s Hotel, as if and as though Management Company had executed the Franchise Agreement as “Franchisee.”

2. Nothing in this Joinder constitutes an agreement of Management Company to pay or assume any financial obligation of Franchisee to Franchisor or to any third party with its own funds, including any obligation of Franchisee to pay any amounts owed to Franchisor under the Franchise Agreement. Notwithstanding the foregoing, Management Company covenants with Franchisor to pay such amounts to Franchisor with funds available under the Management Agreement for such purpose in accordance with its terms, and to request from Franchisee funds to pay amounts due to Franchisor as provided in the Management Agreement for cash obligation shortfalls.

3. Management Company further agrees to be bound by the property rights, confidentiality and other covenants set forth in Sections 5, 6, 7, 8, 10 and 11 of the Franchise Agreement (including all remedies available to Franchisor under the Franchise Agreement for breach thereof) during and subsequent to its tenure as manager of Franchisee’s Hotel.

4. Management Company represents and warrants to Franchisor and Franchisee that neither Management Company nor any of its direct and indirect owners, executives and managers is a Competitive Business or listed in the Annex to U.S. Executive Order 13224.

5. Management Company agrees that Franchisor may enforce directly against Management Company those terms and conditions of the Franchise Agreement to which Management Company has hereby agreed to be bound.

6. Franchisee acknowledges and agrees that any act or omission of Management Company relating directly or indirectly to Franchisee’s Hotel will be deemed and considered the act or omission of Franchisee for purposes of Franchisor’s rights and remedies under the Franchise Agreement (including, without limitation, Franchisee’s indemnification and defense obligations under Section 15.D of the Franchise Agreement), any other agreement, or applicable law.

7. As of the Effective Date, Franchisor consents to the operation of Franchisee's Hotel by Management Company on behalf of Franchisee and grants to Management Company the right to use the Franchise System to operate Franchisee's Hotel in compliance with the Brand Standards, this Joinder and the Franchise Agreement.

8. Franchisor's consent is personal to Management Company, and this Joinder is not assignable by Franchisee or Management Company. Such consent and grant will terminate without notice to Management Company on: (i) the expiration or termination of the Franchise Agreement; (ii) the effectiveness of a subsequent management company acknowledgment executed with respect to Franchisee's Hotel by Franchisor, Franchisee and another management company; or (iii) the effective date of Franchisor's consent to the operation of Franchisee's Hotel by Franchisee in an amendment to the Franchise Agreement.

9. If (i) any of the circumstances in Section 14.B of the Franchise Agreement occur, (ii) there is a breach of any provision of the Franchise Agreement related to or caused by Management Company, or (iii) Management Company or any direct or indirect Affiliate becomes a Competitive Business, Franchisor may withdraw its consent for Management Company to operate Franchisee's Hotel and require Franchisee to retain a replacement management company as provided in the Franchise Agreement.

10. Management Company and Franchisee acknowledge that Management Company will have the exclusive authority and responsibility for the day-to-day management of Franchisee's Hotel on behalf of Franchisee and will have sufficient authority and responsibility over Franchisee's Hotel's employees (whether employed by Management Company or Franchisee) to operate Franchisee's Hotel in compliance with the Brand Standards, the Franchise Agreement and this Joinder. The general manager of Franchisee's Hotel will devote his or her full time and attention to the management and operation of Franchisee's Hotel and will have successfully completed Franchisor's mandatory training program required by the Brand Standards. Management Company will promptly inform Franchisor whenever Franchisee's Hotel general manager changes, or leaves that post, for any reason.

11. Management Company will have no rights under the Franchise Agreement except as stated in this Joinder and such rights do not constitute a franchise or license to Management Company.

12. If any provision of the Franchise Agreement or this Joinder conflicts with the Management Agreement, the provision of the Franchise Agreement or this Joinder will control.

13. Section 15, 17, 18 and 19 of the Franchise Agreement are incorporated herein by this reference and made an integral part of this Joinder.

14. This Joinder may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Faxed, scanned or electronic signatures shall have the same effect and validity, and may be relied upon in the same manner, as original signatures

IN WITNESS WHEREOF, the parties have executed this Joinder as of the Effective Date.

**MANAGEMENT COMPANY:**

\_\_\_\_\_  
**[Management Company Name]**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_

**FRANCHISOR:**  
**SONESTA RL HOTELS FRANCHISING INC.**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_  
*(this is the Effective Date)*

**FRANCHISEE:**

\_\_\_\_\_  
**[Franchisee Name]**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_

## EXHIBIT C

### Collateral Assignment of Online Presences

**THIS COLLATERAL ASSIGNMENT** is entered into as of \_\_\_\_\_, 20\_\_, in accordance with the terms of the Franchise Agreement ("**Franchise Agreement**") between **SONESTA RL HOTELS FRANCHISING INC.** ("**Franchisor**"), and \_\_\_\_\_ ("**Franchisee**"), executed concurrently with this Assignment, under which Franchisor granted Franchisee the right to own and operate a Sonesta ES Suites ("**Franchised Business**") located at \_\_\_\_\_

**FOR VALUE RECEIVED**, Franchisee hereby assigns to Franchisor all websites, domain names, homepages, e-mail addresses, social media accounts, usernames, other online presence or presence on any electronic medium of any kind (each an "**Online Presence**") associated with Franchisor's trademarks and service marks and used from time to time in connection with the operation of the Franchised Business at the address provided above. This Assignment is for collateral purposes only and, except as specified herein, Franchisor shall have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment, unless Franchisor shall notify the companies managing the Online Presences (the "**Service Providers**") and Franchisee's Internet service provider ("**ISP**") to effectuate the assignment pursuant to the terms hereof.

Upon termination or expiration of the Franchise Agreement (without extension), Franchisor shall have the right and is hereby empowered to effectuate the assignment of the Online Presences. In such event, Franchisee shall have no further right, title or interest in the Online Presences, and shall remain liable to the Service Providers and the ISP for all past due fees owing to the Service Providers and the ISP on or before the effective date of the assignment hereunder.

Franchisee agrees and acknowledges that as between Franchisor and Franchisee, upon termination or expiration of the Franchise Agreement, Franchisor shall have the sole right to and interest in the Online Presences, and Franchisee irrevocably appoints Franchisor as Franchisee's true and lawful attorney-in-fact, which appointment is coupled with an interest, to direct the Service Providers and the ISP to assign same to Franchisor, and execute such documents and take such actions as may be necessary to effectuate the assignment. Upon such event, Franchisee shall immediately notify the Service Providers and the ISP to assign the Online Presences to Franchisor. If Franchisee fails to promptly direct the Service Providers and the ISP to assign the Online Presences to Franchisor, Franchisor shall direct the Service Providers and the ISP to effectuate the assignment contemplated hereunder to Franchisor. The parties agree that the Service Providers and the ISP may accept Franchisor's written direction, the Franchise Agreement or this Assignment as conclusive proof of Franchisor's exclusive rights in and to the Online Presences upon such termination or expiration and that such assignment shall be made automatically and effective immediately upon each Service Provider's and ISP's receipt of such notice from Franchisor or Franchisee. The parties further agree that if the Service Provider or the ISP requires that the parties execute the Service Provider's or the ISP's assignment forms or other documentation at the time of termination or expiration of the Franchise Agreement, Franchisor's execution of such forms or documentation on behalf of Franchisee shall effectuate Franchisee's consent and agreement to the assignment. The parties agree that at any time after the date hereof they will perform such acts and execute and deliver such documents as may be necessary to assist in or accomplish the assignment described herein upon termination or expiration of the Franchise Agreement.

All rights of Franchisor shall inure to its benefit and to the benefit of its successors and assigns. Franchisor may assign its rights under this Agreement to any designee. This Assignment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. The parties agree that scanned or electronic signatures shall have the same effect and validity, and may be relied upon in the same manner, as original signatures.

**THUS SIGNED** this Assignment as of the day and date shown on the first page hereof.

**SONESTA RL HOTELS FRANCHISING INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
**[Franchisee Name]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**EXHIBIT D**

**GUARANTY AND ASSUMPTION OF OBLIGATIONS**

**THIS GUARANTY AND ASSUMPTION OF OBLIGATIONS** is given this \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_, by \_\_\_\_\_

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In consideration of, and as an inducement to, the execution of that certain Franchise Agreement (as amended, modified, restated or supplemented from time to time, the "**Franchise Agreement**") on this date by **SONESTA RL HOTELS FRANCHISING INC.** ("**we**"), [and as consideration for the Development Incentive Promissory Note (as amended, modified, restated or supplemented from time to time, the "**Note**" and together with the Franchise Agreement referred to as the "**Agreements**") executed on this date,] each of the undersigned personally and unconditionally (a) guarantees to us and our successors and assigns, for the term of the Agreement(s) and afterward as provided in the Agreement(s), that \_\_\_\_\_ ("**Franchise Owner**") will punctually pay and perform each and every undertaking, agreement, and covenant set forth in the Agreement(s) and (b) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement(s), both monetary obligations and obligations to take or refrain from taking specific actions or to engage or refrain from engaging in specific activities, including the non-competition, confidentiality, and transfer requirements.

Each of the undersigned consents and agrees that: (1) his or her direct and immediate liability under this Guaranty will be joint and several, both with Franchise Owner and among other guarantors; (2) he or she will render any payment or performance required under the Agreement(s) upon demand if Franchise Owner fails or refuses punctually to do so; (3) this liability will not be contingent or conditioned upon our pursuit of any remedies against Franchise Owner or any other person; (4) this liability will not be diminished, relieved, or otherwise affected by any extension of time, credit, or other indulgence which we may from time to time grant to Franchise Owner or to any other person, including, without limitation, the acceptance of any partial payment or performance or the compromise or release of any claims, none of which will in any way modify or amend this Guaranty, which will be continuing and irrevocable during the term of the Agreement(s); (5) this liability will continue unchanged by the occurrence of any bankruptcy with respect to Franchise Owner or any assignee or successor of Franchise Owner, and his or her obligations to make payment or render performance in accordance with the terms of this undertaking nor any remedy for enforcement shall be impaired, modified, changed, released or limited in any manner whatsoever by any impairment, modification, change, release or limitation of the liability of Franchise Owner or its estate in bankruptcy or of any remedy for enforcement, resulting from the operation of any present or future provision of the U.S. Bankruptcy Act or other statute, or from the decision of any court or agency; and (6) at our request, the undersigned shall present updated financial information to us as reasonably necessary to demonstrate his or her ability to satisfy the financial obligations of Franchise Owner under the Agreement(s).

Each of the undersigned waives: (i) all rights to payments and claims for reimbursement or subrogation which any of the undersigned may have against Franchise Owner arising as a result of the undersigned's execution of and performance under this Guaranty; and (ii) acceptance and notice of acceptance by us of his or her undertakings under this Guaranty, notice of demand for payment of any indebtedness or non-performance of any obligations hereby guaranteed, protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed, and any other notices to which he or she may be entitled.

The provisions contained in Section 17 (Enforcement) of the Franchise Agreement, including Section 17.F (Arbitration), Section 17.H (Consent to Jurisdiction) and Section 17.C (Costs and Attorneys' Fees) of the Franchise Agreement are incorporated into this Guaranty by reference and shall govern this Guaranty and any disputes between the undersigned and us. The Guarantors shall reimburse us for all costs and expenses we incur in connection with enforcing the terms of this Guaranty.



Each Guarantor that is a business entity, retirement or investment account, or trust acknowledges and agrees that if Franchisee (or any of its affiliates) is delinquent in payment of any amounts guaranteed hereunder, that no dividends or distributions may be made by such Guarantor (or on such Guarantor's account) to its owners, accountholders or beneficiaries or otherwise, for so long as such delinquency exists, subject to applicable law.

**IN WITNESS WHEREOF**, each of the undersigned has affixed his or her signature on the same day and year as the Franchise Agreement was executed.

**GUARANTOR(S):**

GUARANTOR(S)	
<p><b>#1:</b></p> <p>Signature: _____</p> <p>Name: _____</p> <p>Address: _____</p> <p>_____</p> <p>Email: _____</p>	<p><b>#2:</b></p> <p>Signature: _____</p> <p>Name: _____</p> <p>Address: _____</p> <p>_____</p> <p>Email: _____</p>
<p><b>#3:</b></p> <p>Signature: _____</p> <p>Name: _____</p> <p>Address: _____</p> <p>_____</p> <p>Email: _____</p>	<p><b>#4:</b></p> <p>Signature: _____</p> <p>Name: _____</p> <p>Address: _____</p> <p>_____</p> <p>Email: _____</p>

**EXHIBIT E**

**PROPERTY IMPROVEMENT PLAN**

**EXHIBIT E**

**DEVELOPMENT INCENTIVE PROMISSORY NOTE**

## DEVELOPMENT INCENTIVE PROMISSORY NOTE

\$ \_\_\_\_\_

Newton, Massachusetts  
\_\_\_\_\_, 202\_\_

FOR VALUE RECEIVED, the undersigned, [ \_\_\_\_\_ ] ("**Maker**"), promises to pay **SONESTA RL HOTELS FRANCHISING INC.**, a Washington corporation ("**Holder**"), the principal sum of [ \_\_\_\_\_ ] (\$ \_\_\_\_\_) (the "**Principal**") pursuant to that certain franchise agreement between the Maker and the Holder (the "**Agreement**") pertaining to the hotel located at [ \_\_\_\_\_ ] (the "**Hotel**"), which amount shall bear no interest unless Maker defaults under the Agreement or this Note is accelerated. The capitalized terms not defined in this Development Incentive Promissory Note (the "**Note**") shall have the meanings given to them in the Agreement.

1. **Disbursement.** Provided Maker is in compliance with the terms and conditions of the Agreement, and all required parties have executed a guaranty in a form acceptable to Holder, Holder has agreed to provide a financial contribution to Maker in the principal amount of this Note to assist Maker with the conversion of the Hotel to a Brand Hotel. The Principal will be distributed to Maker within 10 days of the Opening Date, provided Maker opens the Hotel in accordance with the Agreement.

2. **Repayment Terms; Forgiveness of Debt.** Maker will become subject to the obligation to repay or discharge this Note upon receipt of the Principal. After the Principal is funded, [ \_\_\_ percent (\_\_\_%)] of the original principal amount will be forgiven without payment on each anniversary of the Opening Date, provided that no Acceleration Event (defined below) has occurred and Maker is in full compliance with the Agreement and any other agreement between Maker and Holder or its affiliates. The Maker's obligation to repay the Principal will cease and this Note will be canceled and discharged if and when the principal is completely forgiven. Maker shall be solely responsible for the tax consequences, if any, of any debt forgiveness, and a Form 1099-C, Cancellation of Debt, may be filed by Holder with the Internal Revenue Service, with a copy provided to Maker. If this Note is accelerated and not paid in full within ten (10) days after it becomes due, the outstanding principal balance shall bear simple interest at a rate equal to the lesser of eighteen (18%) percent per annum or the highest rate allowed by applicable law. The outstanding principal balance of this Note shall be payable in US\$ by ACH to the account designated by Holder, or by such other payment method as Holder may designate in writing. This Note shall be accelerated on the occurrence of any of the following events (each, an "**Acceleration Event**"): (i) termination of the Agreement for any reason; (ii) any breach of the Agreement, whether Maker is notified of or cures such breach; (iii) transfer of any interest in the Agreement whereby the transferee does not assume Maker's obligation under this Note in a form acceptable to Holder upon transfer; (iv) Maker loses ownership or possession of the Premises, or otherwise loses the right to conduct the franchised business at the Hotel; or (v) if any proceedings for the appointment of a receiver or other custodian or seeking marshaling or composition of or for Maker's business or assets is filed in any court, or otherwise commenced in accordance with applicable law, and is not dismissed within forty-five (45) days. Should an Acceleration Event occur, the unamortized Principal shall become immediately due and payable without further notice. Maker may prepay this Note at any time without penalty.

### 3. **General.**

a. This Note is not intended to be exhaustive in nature, nor is it intended to set forth all of Holder's rights. It does not modify, replace, or affect any other rights, default or termination notices under the Agreement, or any other agreement with Holder regarding Maker's Hotel. Holder does not waive any of its legal or equitable rights (including the right to specify additional defaults) or remedies.

b. No failure or delay by Holder to insist on strict performance of any term of this Note or exercise any right or remedy upon the occurrence of an Acceleration Event or any other breach of this Note, is a waiver of any term or agreement or of any breach, or precludes Holder from exercising any right or remedy at any later time unless in writing. If Holder accepts any payment after its due date, this act will not be a waiver of Holder's right to receive payment of all other amounts or to declare a default for the failure to make any other payment when due. Any partial payments under this Note may be applied to pay interest, the principal amount, or costs as Holder, in its sole discretion determines. No amendment to or modification of this Note shall be binding on Holder unless in writing and signed by Holder.

c. If any provision (or any part of any provision) in this Note is for any reason held to be invalid, illegal or unenforceable in any respect, the invalidity, illegality or unenforceability will not affect any other provision (or remaining part of the affected provision) of this Note, and this Note will be construed as if the invalid, illegal or unenforceable provision (or part of this Note) had never been contained in this Note but only to the extent it is invalid, illegal or unenforceable.

d. As used in this Note, the term "Holder" shall include any subsequent holder of or participant in this Note. Holder may assign this Note in whole or in part. Holder may make available to any proposed assignee or participant all credit and financial data with respect to Maker as may be in the possession of Holder. Maker agrees to provide any additional information that any proposed assignee or participant may reasonably request.

e. If this Note is collected through an attorney at law, Holder shall be entitled to collect reasonable attorneys' fees and all costs of collection. Each maker, endorser, guarantor or accommodation party liable for this Note waives presentment, demand, notice of demand, protest, notice of protest, notice of non-payment, notice of dishonor and diligence in collection. Holder reserves the right to modify the terms of this Note, grant extensions, renewals, releases, discharges, compositions and compromises with any party liable on this Note, with or without notice to or the consent of, or discharging or affecting the obligations of any other party liable under this instrument. This Note is being delivered in, is intended to be performed in, shall be construed and interpreted in accordance with, and be governed by the internal laws of, the Commonwealth of Massachusetts, without regard to principles of conflict of laws. Any legal action necessary to enforce the terms of this Note may be brought by the Holder in the Commonwealth of Massachusetts and the Maker hereby submits to the jurisdiction of any federal or state court in the Commonwealth of Massachusetts. Any default under the terms of the Agreement or this Note shall be deemed a default of the Agreement and this Note and the Holder may pursue its remedies as available under the Agreement and this Note.

f. You agree to keep the provisions of this Note in strict confidence and will not disclose them to any persons other than your directors, officers, partners, employees agents and advisors that have a need to know.

g. This Note may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

In Witness Whereof, Maker acknowledges and agrees to the terms of this Note as evidenced by its signature under seal as of the day and year first above written.

The repayment of the debt evidenced by this Note is personally guaranteed by [ ] by virtue of a Guaranty and Assumption of Obligations attached to the Agreement as Exhibit D and executed on even date herewith.

**MAKER:**

[ ]

By: \_\_\_\_\_

Date: \_\_\_\_\_

**EXHIBIT F**

**REPRESENTATIONS AND ACKNOWLEDGMENT STATEMENT**

## REPRESENTATIONS AND ACKNOWLEDGMENT STATEMENT

The purpose of this Statement is to demonstrate to Sonesta RL Hotels Franchising Inc. (“Franchisor”) that the person(s) signing below (“I,” “me” or “my”), whether acting individually or on behalf of any legal entity established to acquire the franchise rights, (a) fully understands that the purchase of a Sonesta ES Suites® franchise to operate as a Sonesta ES Suites-branded hotel is a significant long-term commitment, complete with its associated risks, and (b) is not relying on any statements, representations, promises or assurances that are not specifically set forth in Franchisor’s Franchise Disclosure Document and Exhibits (collectively, the “FDD”) in deciding to purchase the franchise.

In that regard, I represent to Franchisor and acknowledge that:

<p>I understand that buying a franchise is not a guarantee of success. Purchasing or establishing any business is risky, and the success or failure of the franchise is subject to many variables such as my skills and abilities (and those of my partners, officers, employees), the time my associates and I devote to the business, competition, interest rates, the economy, inflation, operation costs, location, lease terms, the market place generally and other economic and business factors. I am aware of and am willing to undertake these business risks. I understand that the success or failure of my business will depend primarily upon my efforts and not those of Franchisor.</p>	<p>INITIAL:</p>
<p>I received a copy of the FDD, including the Franchise Agreement, at least 14 calendar days (10 business days in Michigan) before I executed the Franchise Agreement. I understand that all of my rights and responsibilities and those of Franchisor in connection with the franchise are set forth in these documents and only in these documents. I acknowledge that I have had the opportunity to personally and carefully review these documents and have, in fact, done so. I have been advised to have professionals (such as lawyers and accountants) review the documents for me and to have them help me understand these documents. I have also been advised to consult with other franchisees regarding the risks associated with the purchase of the franchise.</p>	<p>INITIAL:</p>
<p>Neither the Franchisor nor any of its officers, employees or agents (including any franchise broker) has made a statement, promise or assurance to me concerning any matter related to the franchise (including those regarding advertising, marketing, training, support service or assistance provided by Franchisor) that is contrary to, or different from, the information contained in the FDD.</p>	<p>INITIAL:</p>
<p>My decision to purchase the franchise has not been influenced by any oral representations, assurances, warranties, guarantees or promises whatsoever made by the Franchisor or any of its officers, employees or agents (including any franchise broker), including as to the likelihood of success of the franchise.</p>	<p>INITIAL:</p>
<p>I have made my own independent determination as to whether I have the capital necessary to fund the business and my living expenses, particularly during the start-up phase.</p>	<p>INITIAL:</p>
<p>PLEASE READ THE FOLLOWING QUESTION CAREFULLY. THEN SELECT YES OR NO AND PLACE YOUR INITIALS WHERE INDICATED.</p> <p>Have you received any information from the Franchisor or any of its officers, employees or agents (including any franchise broker) concerning actual, average, projected or forecasted sales, revenues, income, profits or earnings of the franchise business (including any statement, promise or assurance concerning the likelihood of success)?</p> <p style="padding-left: 40px;"><input type="checkbox"/> Yes <input type="checkbox"/> No (Initial Here: ____)</p> <p style="padding-left: 40px;">If you selected “Yes,” please describe the information you received on the lines below:</p> <p>_____</p> <p>_____</p>	<p>INITIAL:</p>

**Prohibited Parties Clause**. I acknowledge that Franchisor, its employees and its agents are subject to U.S. laws that prohibit or restrict (a) transactions with certain parties, and (b) the conduct of transactions involving certain foreign parties. These laws include, without limitation, U.S. Executive Order 13224, the U.S. Foreign Corrupt Practices Act, the Bank Secrecy Act, the International Money Laundering Abatement and Anti-terrorism Financing Act, the Export Administration Act, the Arms Export Control Act, the U.S. Patriot Act, and the International Economic Emergency Powers Act, and the regulations issued pursuant to these and other U.S. laws. As part of the express consideration for the purchase of the franchise, I represent that neither I nor any of my employees, agents, or representatives, nor any other person or entity associated with me, is now, or has been listed on:

1. the U.S. Treasury Department's List of Specially Designated Nationals;
2. the U.S. Commerce Department's Denied Persons List, Unverified List, Entity List, or General Orders;
3. the U.S. State Department's Debarred List or Nonproliferation Sanctions; or
4. the Annex to U.S. Executive Order 13224.

I warrant that neither I nor any of my employees, agents, or representatives, nor any other person or entity associated with me, is now, or has been: (i) a person or entity who assists, sponsors, or supports terrorists or acts of terrorism; or (ii) is owned or controlled by terrorists or sponsors of terrorism. I warrant that I am now, and have been, in compliance with U.S. anti-money laundering and counter-terrorism financing laws and regulations, and that any funds provided by me to Franchisor were legally obtained in compliance with these laws.

I further covenant that neither I nor any of my employees, agents, or representatives, nor any other person or entity associated with me, will, during the term of the Franchise Agreement, become a person or entity described above or otherwise become a target of any anti-terrorism law.

If the hotel that you will operate under the name Sonesta ES Suites® is located in Maryland or if you are a resident of Maryland, the following shall apply:

Any acknowledgments or representations of the franchisee which disclaim the occurrence and/or acknowledge the non-occurrence of acts that would constitute a violation of the Franchise Law are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

California franchisees are not required to complete this Representations and Acknowledgment Statement. If any California franchisee completes this Representations and Acknowledgment Statement, Franchisor will destroy, disregard, and will not rely on such Representations and Acknowledgment Statement.

[Signature page follows]



**FRANCHISEE:**

Sign here if you are taking the franchise as an  
**INDIVIDUAL(S)**  
**(Note: use these blocks if you are an individual  
or a partnership but the partnership is not a  
separate legal entity)**

\_\_\_\_\_  
**Signature**  
Print Name: \_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
**Signature**  
Print Name: \_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
**Signature**  
Print Name: \_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
**Signature**  
Print Name: \_\_\_\_\_  
Date: \_\_\_\_\_

Sign here if you are taking the franchise as a  
**CORPORATION, LIMITED LIABILITY  
COMPANY OR PARTNERSHIP**

\_\_\_\_\_  
Print Name of Legal Entity

By: \_\_\_\_\_  
**Signature**

Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**EXHIBIT G**

**SAMPLE GENERAL RELEASE**

**SONESTA RL HOTELS FRANCHISING INC.**

**GRANT OF FRANCHISOR CONSENT AND FRANCHISEE RELEASE**

**Sonesta RL Hotels Franchising Inc.** ("we," "us," or "our") and the undersigned franchisee, \_\_\_\_\_

\_\_\_\_\_ ("you" or "your"), currently are parties to a certain Franchise Agreement (the "Franchise Agreement") dated \_\_\_\_\_, 20\_\_\_\_. You have asked us to take the following action or to agree to the following request: [insert as appropriate]\_\_\_\_\_

\_\_\_\_\_. We have the right under the Franchise Agreement to obtain a general release from you (and, if applicable, your owners) as a condition of taking this action or agreeing to this request. Therefore, we are willing to take the action or agree to the request specified above if you (and, if applicable, your owners) give us the release and covenant not to sue provided below in this document. You (and, if applicable, your owners) are willing to give us the release and covenant not to sue provided below as partial consideration for our willingness to take the action or agree to the request described above.

Consistent with the previous introduction, you, on your own behalf and on behalf of your current and former parents, affiliates, and subsidiaries, and your and each of the foregoing person's or entity's respective agents, spouses, heirs, executors, administrators, principals, attorneys, partners, owners, officers, directors, employees, representatives, predecessors, successors, and assigns (collectively, the "Releasing Parties"), hereby fully and forever unconditionally release and discharge us and our current and former parents, subsidiaries, and affiliates, and our and each of such foregoing entity's respective current and former owners, officers, directors, employees, managers, agents, representatives, predecessors, successors, and assigns (collectively, the "Sonesta RL Parties") of and from any and all claims, demands, causes of action, suits, duties, obligations, actions, liabilities, defenses or damages of every kind and nature whatsoever (collectively, "Claims") whether at law or in equity, and known or unknown, that any of the Releasing Parties now has, ever had, or, but for this document, hereafter would or could have against any of the Sonesta RL Parties, including, without limitation, Claims arising out of or relating to any relationship or transaction with any of the Sonesta RL Parties, however characterized or described, from the beginning of time until the date of your signature below, including, without limitation, any and all Claims in any way arising out of or relating to the Franchise Agreement, the relationship created by the Franchise Agreement, or the development, ownership, or operation of your Hotel that you operate under the Franchise Agreement. You, on behalf of yourself and the other Releasing Parties, further covenant not to sue any of the Sonesta RL Parties on any of the Claims released by this paragraph, and warrant and represent that the Releasing Parties have not assigned or otherwise transferred any Claims released by this paragraph.

We also are entitled to a release and covenant not to sue from your owners. By his, her or their separate signatures below, your owners likewise grant to us the release and covenant not to sue provided above.

IF YOUR HOTEL YOU OPERATE UNDER THE FRANCHISE AGREEMENT IS LOCATED IN CALIFORNIA OR IF YOU ARE A RESIDENT OF CALIFORNIA, THE FOLLOWING SHALL APPLY:

**SECTION 1542 ACKNOWLEDGMENT.** IT IS YOUR INTENTION, ON YOUR OWN BEHALF AND ON BEHALF OF THE RELEASING PARTIES, IN EXECUTING THIS RELEASE THAT THIS INSTRUMENT BE AND IS A GENERAL RELEASE WHICH SHALL BE EFFECTIVE AS A BAR TO EACH AND EVERY CLAIM, DEMAND, OR CAUSE OF ACTION RELEASED BY YOU OR THE RELEASING PARTIES. YOU RECOGNIZE THAT YOU OR THE RELEASING PARTIES MAY HAVE SOME CLAIM, DEMAND, OR CAUSE OF ACTION AGAINST THE SONESTA RL PARTIES OF WHICH YOU, HE, SHE, OR IT IS TOTALLY UNAWARE AND UNSUSPECTING, WHICH YOU, HE, SHE, OR IT IS GIVING UP BY EXECUTING THIS RELEASE. IT IS YOUR INTENTION, ON YOUR OWN BEHALF AND ON BEHALF OF THE RELEASING PARTIES, IN EXECUTING THIS INSTRUMENT THAT IT WILL DEPRIVE YOU, HIM,

HER, OR IT OF EACH SUCH CLAIM, DEMAND, OR CAUSE OF ACTION AND PREVENT YOU, HIM, HER, OR IT FROM ASSERTING IT AGAINST THE SONESTA RL PARTIES. IN FURTHERANCE OF THIS INTENTION, YOU, ON YOUR OWN BEHALF AND ON BEHALF OF THE RELEASING PARTIES, EXPRESSLY WAIVE ANY RIGHTS OR BENEFITS CONFERRED BY THE PROVISIONS OF SECTION 1542 OF THE CALIFORNIA CIVIL CODE, WHICH PROVIDES AS FOLLOWS:

**“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.”**

YOU ACKNOWLEDGE AND REPRESENT THAT YOU HAVE CONSULTED WITH LEGAL COUNSEL BEFORE EXECUTING THIS RELEASE AND THAT YOU UNDERSTAND ITS MEANING, INCLUDING THE EFFECT OF SECTION 1542 OF THE CALIFORNIA CIVIL CODE, AND EXPRESSLY CONSENT THAT THIS RELEASE SHALL BE GIVEN FULL FORCE AND EFFECT ACCORDING TO EACH AND ALL OF ITS EXPRESS TERMS AND PROVISIONS, INCLUDING, WITHOUT LIMITATION, THOSE RELATING TO THE RELEASE OF UNKNOWN AND UNSUSPECTED CLAIMS, DEMANDS, AND CAUSES OF ACTION.

If your Hotel is located in Maryland or if you are a resident of Maryland, the following shall apply:

Any general release provided for hereunder shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

[Signature Page Follows]

**IN WITNESS WHEREOF**, the parties hereto have executed and delivered this release on the date set forth next to their respective signatures.

**SONESTA RL HOTELS FRANCHISING INC.**

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

**FRANCHISEE**

\_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

**FRANCHISEE OWNER**

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

**EXHIBIT H**

**BRAND MANUAL TABLE OF CONTENTS**



Sonesta   
**BRAND  
STANDARDS  
MANUAL**

2021

# Brand Standards Manual

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**EXHIBIT I**

**STATE ADDENDA AND AGREEMENT RIDERS**

**ADDITIONAL DISCLOSURES FOR THE  
FRANCHISE DISCLOSURE DOCUMENT OF  
SONESTA RL HOTELS FRANCHISING INC.**

The following are additional disclosures for the Franchise Disclosure Document of SONESTA RL HOTELS FRANCHISING INC. required by various state franchise laws. Each provision of these additional disclosures will only apply to you if the applicable state franchise registration and disclosure law applies to you.

**CALIFORNIA**

1. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE FRANCHISE DISCLOSURE DOCUMENT.

2. SECTION 31125 OF THE FRANCHISE INVESTMENT LAW REQUIRES US TO GIVE YOU A FRANCHISE DISCLOSURE DOCUMENT APPROVED BY THE COMMISSIONER OF FINANCIAL PROTECTION & INNOVATION BEFORE WE ASK YOU TO CONSIDER A MATERIAL MODIFICATION OF YOUR FRANCHISE AGREEMENT.

3. OUR WEBSITE, [www.sonesta.com](http://www.sonesta.com), HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THE WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION AT [www.dfpi.ca.gov](http://www.dfpi.ca.gov).

4. The following statement is added to the end of Item 3:

Neither we, our parent, predecessor or affiliate nor any person in Item 2 of the Franchise Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. Sections 78a et seq., suspending or expelling such persons from membership in that association or exchange.

5. The following statement is added to the Remarks column of Item 6 for the rows entitled **Late Payment Charge**:

The highest rate of interest allowed by California law is 10% annually.

6. The following paragraphs are added to the end of Item 17:

The California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer or nonrenewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, and the law applies, the law will control.

The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sections 101 et seq.).

The Franchise Agreement contains a liquidated damages clause. Under California Civil Code, Section 1671, certain liquidated damages clauses are unenforceable.

The Franchise Agreement requires application of the laws of the Commonwealth of Massachusetts. This provision may not be enforceable under California law.

The Franchise Agreement requires binding arbitration. The arbitration will be conducted at a suitable location chosen by the arbitrator that is within a 50 mile radius of our or, as applicable, our successor's or assign's then current principal place of business (currently

Newton, Massachusetts) with the costs being borne as provided in the Franchise Agreement. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of the Franchise Agreement restricting venue to a forum outside the State of California.

The Franchise Agreement requires you to sign a general release of claims on renewal or transfer of the Franchise Agreement. California Corporations Code Section 31512 provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that law or any rule or order thereunder is void. Section 31512 might void a waiver of your rights under the Franchise Investment Law (California Corporations Code Section 31000 – 31516). Business and Professions Code Section 20010 might void a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 – 20043).

## **ILLINOIS**

1. The "Summary" section of Item 17(u), entitled **Dispute resolution by arbitration or mediation**, and the "Summary" section of Item 17(v), entitled **Choice of forum**, are deleted and replaced with the following:

Section 4 of the Illinois Franchise Disclosure Act provides that any provision in a franchise agreement that designates jurisdiction or venue outside the State of Illinois is void. However, a franchise agreement may provide for arbitration outside of Illinois.

2. The "Summary" section of Item 17(w), entitled **Choice of law**, is deleted and replaced with the following:

Except for U.S. Federal Arbitration Act and other federal laws in the U.S., the laws of the State of Illinois will govern the Franchise Agreement.

3. The following paragraphs are added to the end of Item 17:

Section 41 of the Illinois Franchise Disclosure Act provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

Your rights upon termination and non-renewal of a franchise agreement are subject to sections 19 and 20 of the Illinois Franchise Disclosure Act.

## **MARYLAND**

1. The following is added to the end of the "Summary" sections of Item 17(c), entitled **Requirements for franchisee to renew or extend**, and Item 17(m), entitled **Conditions for franchisor approval of transfer**:

However, under COMAR 02.02.08.16L, any release required as a condition of renewal and/or assignment/transfer will not apply to claims arising under the Maryland Franchise Registration and Disclosure Law.

2. The following is added to the end of the "Summary" section of Item 17(h), entitled **"Cause" defined – non-curable defaults**:

The Franchise Agreement provides for termination upon bankruptcy. This provision might not be enforceable under federal bankruptcy law (11 U.S.C. Sections 101 et seq.), but we will enforce it to the extent enforceable.



3. The "Summary" sections of Item 17(v), entitled **Choice of forum**, and 17(w), entitled **Choice of law**, are amended to add the following:

A franchisee may bring suit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

4. The following language is added to the end of the chart in Item 17:

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

## **MINNESOTA**

1. The disclosure in the Item 6 chart, entitled "**Lost Revenue Damages**," is deleted in its entirety.

2. **Renewal, Termination, Transfer and Dispute Resolution**. The following is added to the end of the chart in Item 17:

With respect to franchises governed by Minnesota law, we will comply with Minnesota Statutes, Section 80C.14, Subs. 3, 4, and 5, which require, except in certain specified cases, that you be given 90 days' notice of termination (with 60 days to cure) of the Franchise Agreement and 180 days' notice for non-renewal of the Franchise Agreement.

Minn. Stat. Sec. 80C.21 and Minn. Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring you to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or Franchise Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes 1984, Chapter 80C, or your rights to any procedure, forum or remedies provided for by the laws of the jurisdiction. Those provisions also provide that no condition, stipulations or provision in the Franchise Agreement will in any way abrogate or reduce any of your rights under the Minnesota Franchises Law, including, if applicable, the right to submit matters to the jurisdiction of the courts of Minnesota.

Any release as a condition of renewal and/or transfer/assignment will not apply to the extent prohibited by applicable law with respect to claims arising under Minn. Rule 2860.4400D.

## **NORTH DAKOTA**

1. The Item 6 line items of the Franchise Disclosure Document entitled **Lost Revenue Damages**, and **Liquidated Damages for Unauthorized Opening** will not be enforced to the extent prohibited by applicable law.

2. The following is added to the "Remarks" section of the Item 6 line item entitled **Default Remedies**:

Sections of the Franchise Disclosure Document requiring you to pay all costs and expenses incurred by us in enforcing the Franchise Agreement may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law, and are amended accordingly to the extent required by law.

3. The following is added to the end of the "Summary" sections of Item 17(c), entitled **Requirements for franchisee to renew or extend**, and Item 17(m), entitled **Conditions for franchisor approval of transfer**:

However, any release required as a condition of renewal and/or assignment/transfer will not apply to the extent prohibited by the North Dakota Franchise Investment Law.

4. The following is added to the end of the "Summary" section of Item 17(u), entitled **Dispute resolution by arbitration or mediation**:

To the extent required by the North Dakota Franchise Investment Law (unless such requirement is preempted by the Federal Arbitration Act), arbitration will be at a site to which we and you mutually agree.

5. The "Summary" section of Item 17(v), entitled **Choice of forum**, is deleted and replaced with the following:

Subject to the arbitration requirement, litigation must be brought in the court nearest to our or, as applicable, our successor's or assign's then current principal place of business (currently, Newton, Massachusetts), except that, to the extent required by North Dakota Franchise Investment Law, you may bring an action in North Dakota.

6. The "Summary" section of Item 17(w), entitled **Choice of law**, is deleted and replaced with the following:

Except as otherwise required by North Dakota law, the laws of the Commonwealth of Massachusetts will apply.

## **RHODE ISLAND**

1. The following language is added to the end of the "Summary" sections of Item 17(v), entitled **Choice of forum**, and 17(w), entitled **Choice of law**:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that "A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act."

## **VIRGINIA**

1. The following language is added to the end of the "Summary" section of Item 17(e), entitled **Termination by franchisor without cause**:

Under Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the Franchise Agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

## **WASHINGTON**

1. The following is added to the end of the Special Risks to Consider About This Franchise page:

We use the services of franchise brokers to assist us in selling franchises. A franchise broker represents us and is paid a fee for referring prospects to us and/or selling the franchise. Do not rely only on the information provided by a franchise broker about a

franchise. Do your own investigation by contacting our current and former franchisees to ask them about their experience with us.

2. The following paragraph is added at the end of Item 17:

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act (the "Act"), Chapter 19.100 RCW, shall prevail.

RCW 19.100.180 may supersede the Franchise Agreement in your relationship with us, including the areas of termination and renewal of your franchise. There may also be court decisions which supersede the Franchise Agreement in your relationship with us, including the areas of termination and renewal of your franchise.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the State of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the Franchise Agreement, you may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Act, in Washington.

A release or waiver of rights executed by you may not include rights under the Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the Franchise Agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act such as a right to a jury trial, might not be enforceable.

Transfer fees are collectable to the extent that they reflect our reasonable estimate or actual costs in effecting a transfer.

Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the Franchise Agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the Franchise Agreement or elsewhere are void and unenforceable in Washington.

**THE FOLLOWING PAGES IN THIS EXHIBIT ARE  
STATE-SPECIFIC RIDERS TO THE  
FRANCHISE AGREEMENT**

**RIDER TO THE SONESTA RL HOTELS FRANCHISING INC.  
FRANCHISE AGREEMENT  
FOR USE IN ILLINOIS**

**THIS RIDER** is by and between **SONESTA RL HOTELS FRANCHISING INC.** a Washington corporation with its principal business address at Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458 ("we," "us," or "our"), and \_\_\_\_\_, whose principal business address is \_\_\_\_\_ ("you" or "your").

1. **BACKGROUND.** We and you are parties to that certain Franchise Agreement dated \_\_\_\_\_ (the "Franchise Agreement") that has been signed concurrently with the signing of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) any of the offering or sales activity relating to the Franchise Agreement occurred in Illinois and the Hotel that you will operate under the Franchise Agreement will be located in Illinois, and/or (b) you are domiciled in Illinois.

2. **GOVERNING LAW.** The first sentence of Section 17.G of the Franchise Agreement is deleted and replaced with the following:

G. **Governing Law.** Except to the extent governed by the Federal Arbitration Act, the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.), or other United States federal law, this Agreement, the Franchise, and all claims arising from the relationship between us and you, whether couched in tort or contract, will be governed by the laws of the State of Illinois.

3. **CONSENT TO JURISDICTION.** Section 17.H of the Franchise Agreement is deleted in its entirety.

4. **WAIVER OF PUNITIVE DAMAGES AND JURY TRIAL, AND CLASS ACTION.** The following language is added to the end of Section 17.I of the Franchise Agreement:

**HOWEVER, THIS SECTION SHALL NOT ACT AS A CONDITION, STIPULATION OR PROVISION PURPORTING TO BIND ANY PERSON ACQUIRING ANY FRANCHISE TO WAIVE COMPLIANCE WITH ANY PROVISION OF THE ILLINOIS FRANCHISE DISCLOSURE ACT AT SECTION 705/41 OR ILLINOIS REGULATIONS AT SECTION 200.609, OR ANY OTHER LAW OF THE STATE OF ILLINOIS, TO THE EXTENT APPLICABLE.**

5. **LIMITATIONS OF CLAIMS.** The following language is added to the end of Section 17.L of the Franchise Agreement:

However, this Section shall not act as a condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of the Illinois Franchise Disclosure Act or any other law of the State of Illinois, to the extent applicable.

6. **ILLINOIS FRANCHISE DISCLOSURE ACT.** The following language is added as Section 17.P of the Franchise Agreement:

P. **Illinois Franchise Disclosure Act.** Section 41 of the Illinois Franchise Disclosure Act provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

Your rights upon termination and non-renewal of a franchise agreement are subject to sections 19 and 20 of the Illinois Franchise Disclosure Act.

*(Remainder of page intentionally blank)*

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the effective date of the Franchise Agreement.

**SONESTA RL HOTELS FRANCHISING INC.**

\_\_\_\_\_  
**[Franchisee Name]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**RIDER TO THE SONESTA RL HOTELS FRANCHISING INC.  
FRANCHISE AGREEMENT  
FOR USE IN MARYLAND**

**THIS RIDER** is by and between **SONESTA RL HOTELS FRANCHISING INC.** a Washington corporation with its principal business address at Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458 ("we," "us," or "our"), and \_\_\_\_\_, whose principal business address is \_\_\_\_\_ ("you" or "your").

1. **BACKGROUND.** We and you are parties to that certain Franchise Agreement dated \_\_\_\_\_ (the "Franchise Agreement") that has been signed concurrently with the signing of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) you are domiciled in Maryland, and/or (b) the Hotel that you will operate under the Franchise Agreement will be located in Maryland.

2. **REPRESENTATIONS AND WARRANTIES: FURTHER ASSURANCES.** The following is added to the end of Section 1.D of the Franchise Agreement:

The acknowledgements or representations of the franchisee made in this Agreement which disclaim the occurrence and/or acknowledge the non-occurrence of acts that could constitute a violation of the Franchise Law are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

3. **RELEASES.** The following is added to the end of Sections 12.C(10) and 13.C of the Franchise Agreement:

Pursuant to COMAR 02.02.08.16L, any release required as a condition of renewal and/or assignment/transfer will not apply to claims arising under the Maryland Franchise Registration and Disclosure Law.

4. **INSOLVENCY.** The following is added to the end of Sections 14.B.(2).c and 14.B.(2).e of the Franchise Agreement:

; however, we and you acknowledge that certain aspects of this provision might not be enforceable under federal bankruptcy law (11 U.S.C. Sections 101 et seq.).

5. **GOVERNING LAW.** The following is added to the end of Section 17.G of the Franchise Agreement:

Maryland law will apply to claims arising under the Maryland Franchise Registration and Disclosure Law.

6. **CONSENT TO JURISDICTION.** The following is added to the end of Section 17.H of the Franchise Agreement:

Notwithstanding the foregoing, you may bring an action in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

7. **LIMITATIONS OF CLAIMS.** The following is added to the end of Section 17.J of the Franchise Agreement:

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

*(Remainder of page intentionally blank)*

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the effective date of the Franchise Agreement.

**SONESTA RL HOTELS FRANCHISING INC.**

\_\_\_\_\_  
**[Franchisee Name]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**RIDER TO THE SONESTA RL HOTELS FRANCHISING INC.  
FRANCHISE AGREEMENT  
FOR USE IN MINNESOTA**

**THIS RIDER** is by and between **SONESTA RL HOTELS FRANCHISING INC.** a Washington corporation with its principal business address at Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458 ("we," "us," or "our"), and \_\_\_\_\_, whose principal business address is \_\_\_\_\_ ("you" or "your").

1. **BACKGROUND.** We and you are parties to that certain Franchise Agreement dated \_\_\_\_\_ (the "Franchise Agreement") that has been signed concurrently with the signing of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) the Hotel that you will operate under the Franchise Agreement will be located in Minnesota; and/or (b) any of the offering or sales activity relating to the Franchise Agreement occurred in Minnesota.

2. **TRADEMARK DISPUTES.** The following is added to the end of Section 5.G of the Franchise Agreement:

Provided you have complied with all provisions of this Agreement applicable to the Marks, we will protect your rights to use the Marks and we also will indemnify you from any loss, costs or expenses from any claims, suits or demands regarding your use of the Marks in accordance with Minn. Stat. Sec. 80C.12 Subd. 1(g).

3. **RELEASES.** The following is added to the end of Sections 12.C(10) and 13.C of the Franchise Agreement:

Any release required as a condition of renewal and/or assignment/transfer will not apply to the extent prohibited by the Minnesota Franchises Law.

4. **RENEWAL AND TERMINATION.** The following is added to the end of Sections 13 and 14.B of the Franchise Agreement:

However, with respect to franchises governed by Minnesota law, we will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5 which require, except in certain specified cases, that you be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice of non-renewal of this Agreement.

5. **DAMAGES.** The following language is added to the end of Section 14.G of the Franchise Agreement:

We and you acknowledge that certain parts of this provision might not be enforceable under Minn. Rule Part 2860.4400J. However, we and you agree to enforce the provision to the extent the law allows.

6. **GOVERNING LAW.** The following is added to the end of Section 17.G of the Franchise Agreement:

Nothing in this Agreement shall abrogate or reduce any of your rights under Minnesota Statutes Chapter 80C or your right to any procedure, forum or remedies that the law of the jurisdiction provide.

7. **CONSENT TO JURISDICTION.** The following is added to the end of Section 17.H of the Franchise Agreement:

Notwithstanding the foregoing, Minn. Stat. Sec 80C.21 and Minn. Rule 2860.4400J prohibit us, except in certain specified cases, from requiring litigation to be conducted outside Minnesota.

8. **WAIVER OF PUNITIVE DAMAGES, JURY TRIAL, AND CLASS ACTION BAR.** If and then only to the extent required by the Minnesota Franchises Law, Section 17.I of the Franchise Agreement is deleted.

9. **INJUNCTIVE RELIEF.** Section 17.J of the Franchise Agreement is deleted and replaced with the following:

J. **Injunctive Relief.** Nothing in this Agreement, including the provisions of Section 17.F, bars our right to seek specific performance of the provisions of this Agreement and injunctive relief against threatened or actual conduct that will cause us, the Marks and/or the Franchise System loss or damage, under customary equity rules, including applicable rules for obtaining restraining orders and temporary or preliminary injunctions (subject to our obligation to arbitrate the underlying claim if required by Section 17.F). You agree that we may seek such injunctive relief in addition to such further or other relief as may be available at law or in equity. You agree that your only remedy if an injunction is entered against you will be the dissolution of that injunction, if warranted, upon due hearing (all claims for damages by injunction being expressly waived hereby).

10. **LIMITATIONS OF CLAIMS.** The following is added to the end of Section 17.L of the Franchise Agreement:

Minnesota law provides that no action may be commenced under Minn. Stat Sect. 80C.17 more than 3 years after the cause of action accrues.

*(Remainder of page intentionally blank)*

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the effective date of the Franchise Agreement.

**SONESTA RL HOTELS FRANCHISING INC.**

\_\_\_\_\_  
**[Franchisee Name]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**RIDER TO THE SONESTA RL HOTELS FRANCHISING INC.  
FRANCHISE AGREEMENT  
FOR USE IN NORTH DAKOTA**

**THIS RIDER** is by and between **SONESTA RL HOTELS FRANCHISING INC.** a Washington corporation with its principal business address at Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458 ("we," "us," or "our"), and \_\_\_\_\_, whose principal business address is \_\_\_\_\_ ("you" or "your").

1. **BACKGROUND.** We and you are parties to that certain Franchise Agreement dated \_\_\_\_\_ (the "Franchise Agreement") that has been signed concurrently with the signing of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) you are a resident of North Dakota and the Hotel that you will operate under the Franchise Agreement will be located or operated in North Dakota; and/or (b) any of the offering or sales activity relating to the Franchise Agreement occurred in North Dakota.

2. **RELEASES.** The following is added to the end of Sections 12.C(10) and 13.C of the Franchise Agreement:

Any release required as a condition of renewal and/or assignment/transfer will not apply to the extent prohibited by the North Dakota Franchise Investment Law.

3. **DAMAGES.** The following language is added to the end of Section 14.G of the Franchise Agreement:

We and you acknowledge that certain parts of this provision might not be enforceable under the North Dakota Franchise Investment Law. However, we and you agree to enforce the provision to the extent the law allows.

4. **ARBITRATION.** The first paragraph of Section 17.F of the Franchise Agreement is amended to read as follows:

F. **Arbitration.** We and you agree that all controversies, disputes, or claims between us or any of our affiliates, and our and their respective owners, officers, directors, agents, and employees on the one hand, and you (and your owners, guarantors, affiliates, and/or employees), on the other hand, arising out of or related to:

- (1) this Agreement or any other agreement between you (or any of your owners) and us (or any of our affiliates);
- (2) our relationship with you;
- (3) the scope or validity of this Agreement or any other agreement between you (or any of your owners) and us (or any of our affiliates) or any provision of any such agreements (including the validity and scope of the arbitration provision under this Section, which we and you acknowledge is to be determined by an arbitrator, not a court); or
- (4) any Brand Standard;

must be submitted for binding arbitration, on demand of either party, to the American Arbitration Association ("**AAA**"). The arbitration proceedings will be conducted by one arbitrator and, except as this Section otherwise provides, according to the AAA's then-current Commercial Arbitration Rules. All proceedings will be conducted at a suitable location chosen by the arbitrator that is within 50 miles of our or, as applicable, our

successor's or assign's then-current principal place of business (currently, Newton, Massachusetts); provided, however, that to the extent otherwise required by the North Dakota Franchise Investment Law (unless such a requirement is preempted by the Federal Arbitration Act), arbitration shall be held at a site to which we and you mutually agree. All matters relating to arbitration will be governed by the Federal Arbitration Act (9 U.S.C. §§ 1 et seq.). The interim and final awards of the arbitrator shall be final and binding upon each party, and judgment upon the arbitrator's awards may be entered in any court of competent jurisdiction.

5. **GOVERNING LAW.** Section 17.G of the Franchise Agreement is deleted and replaced with the following:

Except to the extent governed by the Federal Arbitration Act, the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.), or other United States federal law, or as otherwise required by North Dakota law, this Agreement, the Franchise, and all claims arising from the relationship between us and you, whether couched in tort or contract, will be governed by the laws of the Commonwealth of Massachusetts, without regard to its conflict of laws rules, except that any state law regulating the offer or sale of franchises or governing the relationship of a franchisor and its franchisee will not apply unless its jurisdictional requirements are met independently without reference to this Section. If any of the provisions of this Agreement which relate to restrictions on you and your owners' competitive activities are found unenforceable under Massachusetts law, the enforceability of those provisions will be governed by the laws of the state in which your Hotel is located.

6. **CONSENT TO JURISDICTION.** The following language is added to the end of Section 17.H of the Franchise Agreement:

Notwithstanding the foregoing, to the extent required by the North Dakota Franchise Investment Law, you may bring an action in North Dakota for claims arising under the North Dakota Franchise Investment Law.

7. **WAIVER OF PUNITIVE DAMAGES AND JURY TRIAL, AND CLASS ACTION.** To the extent required by the North Dakota Franchise Investment Law, Section 17.I of the Franchise Agreement is deleted.

8. **LIMITATIONS OF CLAIMS.** The following is added to the end of Section 17.L of the Franchise Agreement:

The statutes of limitations under North Dakota law applies with respect to claims arising under the North Dakota Franchise Investment Law.

*(Remainder of page intentionally blank)*

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the effective date of the Franchise Agreement.

**SONESTA RL HOTELS FRANCHISING INC.**

\_\_\_\_\_  
**[Franchisee Name]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**RIDER TO THE SONESTA RL HOTELS FRANCHISING INC.  
FRANCHISE AGREEMENT  
FOR USE IN RHODE ISLAND**

**THIS RIDER** is by and between **SONESTA RL HOTELS FRANCHISING INC.** a Washington corporation with its principal business address at Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458 ("we," "us," or "our"), and \_\_\_\_\_, whose principal business address is \_\_\_\_\_ ("you" or "your").

1. **BACKGROUND.** We and you are parties to that certain Franchise Agreement dated \_\_\_\_\_ (the "Franchise Agreement") that has been signed concurrently with the signing of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) you are domiciled in Rhode Island and the Hotel that you will operate under the Franchise Agreement will be located in Rhode Island; and/or (b) any of the offering or sales activity relating to the Franchise Agreement occurred in Rhode Island.

2. **GOVERNING LAW/CONSENT TO JURISDICTION.** The following language is added to the end of each of Section 17.G and 17.H of the Franchise Agreement:

SECTION 19-28.1-14 OF THE RHODE ISLAND FRANCHISE INVESTMENT ACT PROVIDES THAT "A PROVISION IN A FRANCHISE AGREEMENT RESTRICTING JURISDICTION OR VENUE TO A FORUM OUTSIDE THIS STATE OR REQUIRING THE APPLICATION OF THE LAWS OF ANOTHER STATE IS VOID WITH RESPECT TO A CLAIM OTHERWISE ENFORCEABLE UNDER THIS ACT."

*(Remainder of page intentionally blank)*

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the effective date of the Franchise Agreement.

**SONESTA RL HOTELS FRANCHISING INC.**

\_\_\_\_\_  
**[Franchisee Name]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**RIDER TO THE SONESTA RL HOTELS FRANCHISING INC.  
FRANCHISE AGREEMENT  
FOR USE IN VIRGINIA**

**THIS RIDER** is by and between **SONESTA RL HOTELS FRANCHISING INC.** a Washington corporation with its principal business address at Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458 ("we," "us," or "our"), and \_\_\_\_\_, whose principal business address is \_\_\_\_\_ ("you" or "your").

1. **BACKGROUND.** We and you are parties to that certain Franchise Agreement dated \_\_\_\_\_ (the "Franchise Agreement") that has been signed concurrently with the signing of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because the Hotel that you will operate under the Franchise Agreement will be established or maintained in Virginia.

2. **TERMINATION BY EITHER PARTY.** The following language is added to Section 14.A of the Franchise Agreement:

Under Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the Franchise Agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

*(Remainder of page intentionally blank)*

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the effective date of the Franchise Agreement.

**SONESTA RL HOTELS FRANCHISING INC.**

\_\_\_\_\_  
**[Franchisee Name]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**RIDER TO THE SONESTA RL HOTELS FRANCHISING INC.  
FRANCHISE AGREEMENT, REPRESENTATIONS AND ACKNOWLEDGEMENT STATEMENT, AND  
RELATED AGREEMENTS FOR USE IN WASHINGTON**

**THIS RIDER** is by and between **SONESTA RL HOTELS FRANCHISING INC.** a Washington corporation with its principal business address at Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458 ("we," "us," or "our"), and \_\_\_\_\_, whose principal business address is \_\_\_\_\_ ("you" or "your").

1. **BACKGROUND.** We and you are parties to that certain Franchise Agreement dated \_\_\_\_\_ (the "Franchise Agreement") that has been signed concurrently with the signing of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) Franchisee is domiciled in the State of Washington; and/or (b) the Hotel that Franchisee will operate under the Franchise Agreement will be located in Washington; and/or (c) any of the offering or sales activity relating to the Franchise Agreement occurred in Washington.

2. **WASHINGTON LAW.** The following paragraphs are added to the end of the Franchise Agreement:

In the event of a conflict of laws, the provisions of the Act, Chapter 19.100 RCW will prevail.

RCW 19.100.180 may supersede this Agreement in your relationship with us, including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede this Agreement in your relationship with us, including the areas of termination and renewal of your franchise.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the State of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by this Agreement, you may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Act, in Washington.

A release or waiver of rights executed by you may not include rights under the Act, except when executed pursuant to a negotiated settlement after this Agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act, such as a right to a jury trial, may not be enforceable.

Transfer fees are collectable to the extent that they reflect our reasonable estimate or actual costs in effecting a transfer.

Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in this Agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor

or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in this Agreement or elsewhere are void and unenforceable in Washington.

*(Remainder of page intentionally blank)*

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the effective date of the Franchise Agreement.

**SONESTA RL HOTELS FRANCHISING INC.**

\_\_\_\_\_  
**[Franchisee Name]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## **State Effective Dates**

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

<b>State</b>	<b>Effective Date</b>
California	Pending
Hawaii	Pending
Illinois	Exempt
Indiana	Pending
Maryland	Pending
Michigan	Pending
Minnesota	Pending
New York	Exempt
North Dakota	Pending
Rhode Island	Pending
South Dakota	Pending
Virginia	Pending
Washington	Pending
Wisconsin	September 28, 2021

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

**EXHIBIT J**

**RECEIPTS**

**RECEIPT  
(OUR COPY)**

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Sonesta RL Hotels Franchising Inc. offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, Sonesta RL Hotels Franchising Inc. or an affiliate in connection with the proposed franchise sale, or sooner if required by applicable state law. Under Iowa law, we must give you this disclosure document at the earlier of our first personal meeting or 14 calendar days before you sign an agreement with, or make a payment to, us or an affiliate in connection with the proposed franchise sale. Under Michigan law, we must give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Sonesta RL Hotels Franchising Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate state agency identified on Exhibit A.

The franchisor is Sonesta RL Hotels Franchising Inc., Two Newton Place, 255 Washington St., Suite 230, Newton, Massachusetts 02458, (617) 421-5400. The franchise seller for this offering is:

- |  |  |  |
|--|--|--|
| <input type="checkbox"/> Brian Quinn<br>Sonesta RL Hotels Franchising Inc.<br>Two Newton Place<br>255 Washington St., Suite 230<br>Newton, Massachusetts 02458<br>(617) 421-5400 | <input type="checkbox"/> Keith Biumi<br>Sonesta RL Hotels Franchising Inc.<br>Two Newton Place<br>255 Washington St., Suite 230<br>Newton, Massachusetts 02458<br>(617) 421-5400 | <input type="checkbox"/> _____<br>Sonesta RL Hotels Franchising Inc.<br>Two Newton Place<br>255 Washington St., Suite 230<br>Newton, Massachusetts 02458<br>(617) 421-5400 |
|--|--|--|

Issuance Date: September 24, 2021

See Exhibit A for Sonesta RL Hotels Franchising Inc.'s registered agents authorized to receive service of process.

I have received a disclosure document dated September 24, 2021, that included the following Exhibits:

- |   |   |
|---|---|
| Exhibit A - State Administrators/Agents for Service of Process<br>Exhibit B - Financial Statements<br>Exhibit C - Guaranty of Performance<br>Exhibit D - Franchise Agreement<br>Exhibit E - Incentive Promissory Note | Exhibit F - Representations and Acknowledgment Statement<br>Exhibit G - Sample General Release<br>Exhibit H - Table of Contents of Brand Manual<br>Exhibit I - State Addenda and Agreement Riders<br>Exhibit J - Receipts |
|---|---|

Date	Signature	Printed Name
------	-----------	--------------

Date	Signature	Printed Name
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Property located at \_\_\_\_\_  
 (street address) (city) (state) (zip code)

Please enter the address of the Property, sign this copy of the receipt, print the date on which you received this disclosure document, and return it, by mail or email, to Sonesta RL Hotels Franchising Inc., Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458, Email: [Development@sonesta.com](mailto:Development@sonesta.com).



**RECEIPT  
(YOUR COPY)**

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Sonesta RL Hotels Franchising Inc. offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, Sonesta RL Hotels Franchising Inc. or an affiliate in connection with the proposed franchise sale, or sooner if required by applicable state law. Under Iowa law, we must give you this disclosure document at the earlier of our first personal meeting or 14 calendar days before you sign an agreement with, or make a payment to, us or an affiliate in connection with the proposed franchise sale. Under Michigan law, we must give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Sonesta RL Hotels Franchising Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate state agency identified on Exhibit A.

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| <input type="checkbox"/> Brian Quinn<br>Sonesta RL Hotels Franchising Inc.<br>Two Newton Place<br>255 Washington St., Suite 230<br>Newton, Massachusetts 02458<br>(617) 421-5400 | <input type="checkbox"/> Keith Biumi<br>Sonesta RL Hotels Franchising Inc.<br>Two Newton Place<br>255 Washington St., Suite 230<br>Newton, Massachusetts 02458<br>(617) 421-5400 | <input type="checkbox"/> _____<br>Sonesta RL Hotels Franchising Inc.<br>Two Newton Place<br>255 Washington St., Suite 230<br>Newton, Massachusetts 02458<br>(617) 421-5400 |
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| Exhibit D - Franchise Agreement                                | Exhibit I - State Addenda and Agreement Riders           |
| Exhibit E - Incentive Promissory Note                          | Exhibit J - Receipts                                     |

\_\_\_\_\_  
Date Signature Printed Name

\_\_\_\_\_  
Date Signature Printed Name

Property located at \_\_\_\_\_  
(street address) (city) (state) (zip code)

PLEASE SIGN THIS COPY OF THE RECEIPT, PRINT THE DATE ON WHICH YOU RECEIVED THIS DISCLOSURE DOCUMENT AND KEEP IT FOR YOUR RECORDS.