

FRANCHISE DISCLOSURE DOCUMENT



GuestHouse

**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.redlion.com**

The franchise offered in this disclosure document is for the right to operate a GuestHouse Extended Stay-branded hotel.

The total investment necessary to convert an existing hotel into a 70-room GuestHouse Extended Stay Hotel is \$579,445 to \$1,908,745. This estimate includes \$37,945 to \$57,945 that must be paid to us. The total investment necessary for a newly constructed 70-room GuestHouse Extended Stay Hotel is \$3,780,345 to \$7,263,245, excluding the cost of purchasing or leasing land or any real estate taxes. This estimate includes \$37,945 to \$61,945 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 governmental 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, please contact the Franchise Development Department at Sonesta RL Hotels Franchising Inc., Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458; at (617) 421-5400; or at 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 for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date: March 28, 2022

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:

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	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 or Exhibits J and K.
How much will I need to invest?	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.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit H includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only GuestHouse business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be a GuestHouse franchisee?	Item 20 or Exhibits J and K list current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	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 us by litigation only in Massachusetts. Out of state litigation may force you to accept a less favorable settlement for disputes. It may also cost you more to litigate with us in Massachusetts than in your home state.
2. **Mandatory Minimum Payments.** You must make minimum Brand Fee or advertising fund payments, regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.
3. **Turnover Rate.** During the last 3 years, a high percentage of franchised outlets (more than 35%) were terminated, not renewed, re-acquired, or ceased operations for other reasons. This franchise could be a higher risk investment than a franchise system with a lower turnover rate.

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, 1st Floor
525 West Ottawa Street
Lansing, Michigan 48933
Telephone Number: 517-373-7117

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

Table of Contents

ITEM 1. THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES.....	1
ITEM 2. BUSINESS EXPERIENCE	7
ITEM 3. LITIGATION.....	10
ITEM 4. BANKRUPTCY	10
ITEM 5. INITIAL FEES	13
ITEM 6. OTHER FEES.....	15
ITEM 7. ESTIMATED INITIAL INVESTMENT	23
ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES.....	27
ITEM 9. FRANCHISEE’S OBLIGATIONS.....	31
ITEM 10. FINANCING.....	32
ITEM 11. FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING	33
ITEM 12. TERRITORY	39
ITEM 13. TRADEMARKS.....	39
ITEM 14. PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION.....	42
ITEM 15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS ..	43
ITEM 16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL	44
ITEM 17. RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION	44
ITEM 18. PUBLIC FIGURES.....	50
ITEM 19. FINANCIAL PERFORMANCE REPRESENTATIONS.....	50
ITEM 20. OUTLETS AND FRANCHISEE INFORMATION	50
ITEM 21. FINANCIAL STATEMENTS	53
ITEM 22. CONTRACTS	54
ITEM 23. RECEIPTS.....	54

EXHIBITS:

Exhibit A –	List of State Administrators/Agents for Service of Process
Exhibit B –	Franchise Agreement
Exhibit C –	Guaranty of Franchise Agreement and Promissory Notes
Exhibit D-1 –	Initial Fee Promissory Note
Exhibit D-2 –	Incentive Promissory Note
Exhibit E –	Table of Contents of Brand Manual
Exhibit F –	Representations and Acknowledgment Statement
Exhibit G –	Financial Statements
Exhibit H –	Guaranty of Performance
Exhibit I –	List of Current Franchisee Outlets
Exhibit J –	List of Franchisee Outlets Terminated, Not Renewed or Who Otherwise Left the System
Exhibit K –	Sample General Release
Exhibit L –	Consent to Transfer
Exhibit M –	State Addenda and Agreement Riders
Exhibit N –	Receipts

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 20% 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 B 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 our parent, Red Lion Hotels Corporation ("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 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 operate select service hotels with extended stay features under the service mark GuestHouse Extended StaySM and certain other proprietary marks to franchisees (collectively, the “Franchisees”). A franchise grants you the non-exclusive right to operate a GuestHouse Extended Stay-branded hotel at a specific location (your “Hotel”). Hotels that are authorized to operate under the Proprietary Marks (as defined in Item 13) are known as “GuestHouse Extended Stay Hotels.”

The franchise concept allows experienced, professional hotel operators greater autonomy in their operations than conventional hotel franchises, while also providing brand standards that may be less elaborate or rigid compared to conventional hotel franchises. All Franchisees must be experienced in the industry (or must engage an experienced hotel management company on their behalf) and must have qualified professional hotel management onsite.

GuestHouse Extended Stay is an upscale select service brand, offering premier economy stays with certain extended stay features at a value-based price. Amenities include swimming pools (unless geographically contraindicated), complimentary continental breakfast, flat screen televisions with premium programming, high-speed internet access in guest rooms and in the lobby, and complimentary coffee service in the lobby. In addition, 10% of the guest rooms at GuestHouse Extended Stay Hotels must include kitchenettes.

In all cases, we expect the properties to be run according to our Brand Standards and you may be required to make future investments. “Brand Standards” means the mandatory specifications, standards, operating procedures, and rules that we periodically prescribe for constructing, equipping, furnishing, supplying, operating, maintaining and marketing GuestHouse Extended Stay Hotels, including your Hotel. 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 supporting documentation. The Brand Manual may include the Brand Standards and information on suggested procedures and your other obligations under the Franchise Agreement.

One of the hallmarks of the Brand is its “Signature Moments,” which are those brand-required (or, in some instances, strongly recommended) elements and features that are intended to delight guests and take their stay out of the ordinary. This is reflected in such features as making available to guests the comforts of home (such as the use of a blender, a toaster, and complimentary use of laundry machines); our superior lobby coffee service; an exceptional shower experience; and distinct beds and bedding. These are in addition to other Brand requirements or Brand Standards that we may establish. Signature Moments and Brand Standards are subject to further specifications set out in the Brand Manual or otherwise in writing. We periodically may change our Brand Standards or Signature Moments.

References to the “Brand” currently includes the Proprietary Marks; training programs and materials, standards, specifications and policies for construction, furnishing, operation, appearance and service of the Hotel; other elements we refer to in the Franchise Agreement, the Brand Standards, the Brand Manual or in other communications to you; and programs for our inspecting your Hotel and consulting with you.

Franchisor’s Business

We have offered franchises for GuestHouse Extended Stay Hotels since March 2020. 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.

We also offer franchises for hotels under the following brands:

Sonesta Hotels & Resorts

As of September 2021, we began offering franchises for hotels that provide upscale accommodations under the service mark Sonesta® Hotels & Resorts. The Sonesta® Hotels & Resorts service mark and related trademarks, service marks and trade names are collectively referred to as the “Sonesta H&R Marks.” As of December 31, 2021, there were 24 affiliate-owned or affiliate-managed hotels in the United States under the Sonesta H&R Marks.

Sonesta ES Suites

As of September 2021, we began offering franchises for extended stay hotels that provide upscale accommodations under the service mark Sonesta ES Suites®. The Sonesta ES Suites® service mark and related trademarks, service marks and trade names are collectively referred to as the “Sonesta ES Marks.” As of December 31, 2021, there was one franchised and 62 affiliate-owned or affiliate-managed hotels in the United States under the Sonesta ES 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 December 31, 2021, there were 61 affiliate-owned or affiliate-managed 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 December 31, 2021, there were nine affiliate-owned or affiliate-managed 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, 2021, there were 30 Red Lion Hotel franchises open or under contract and 38 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, 2021.

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 RLSM service marks and related trademarks, service marks and trade names are collectively referred to as the “RL Marks.” As of December 31, 2021, there were four Hotel RL franchises open or under contract. There was also one affiliate-owned hotel under the RL Marks as of December 31, 2021.

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 InnSM. As of December 31, 2021, there were five Signature Inn franchises open or under contract. 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[®] service mark and related trademarks and trade names. As of December 31, 2021, there were 172 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[®] (“ABVI”) and certain other proprietary marks, collectively referred to as the “ABVI Marks.” As of December 31, 2021, there were 537 Americas Best Value Inn-branded hotels open or under contract, approximately 275 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 SignatureSM 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, 2021, there were

four Signature franchises open or under contract. The SignatureSM 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[®], Country Hearth Suites[®], Country Hearth Inn & Suites[®] 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, 2021, there were 32 franchised Country Hearth-branded hotels open or under contract, 18 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[®] and Settle Inn & Suites[®], 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, 2021, 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, 2021, 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, 2021, 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 Proprietary Marks, Sonesta H&R Marks, Sonesta ES Marks, Sonesta Simply Marks, Sonesta Select Marks, Red Lion Marks, RL Marks, Signature Inn Marks, Knights Inn Marks, Signature Marks, ABVI Marks, Lexington Marks, Jameson Inn service marks, Country Hearth 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 hotel business and 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 and its subsidiaries, 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. A “chain code” is a two-character code that identifies a particular chain hotel within our designated global distribution system.

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; under the Signature Marks, Signature Inn Marks, Knights Inn Marks, Country Hearth Marks and Proprietary Marks in August 2018; and under the Sonesta H&R Marks, Sonesta ES Marks, Sonesta Simply Marks, and Sonesta Select Marks in November 2021. 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, RLabs, Inc. (“RLabs”), is a Colorado corporation that was originally formed in Washington in March 2018. RLabs licenses technology solutions, including an all-in-one cloud-based hospitality management suite, to hotel management companies and independent hotels. RLabs also is a party to certain master technology and distribution agreements (for example, with online travel agencies) that are intended to benefit all Network Hotels and RLabs’ direct customers.

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 Sonesta Hotels and Resorts trademarks. 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 GuestHouse Extended Stay Hotel is suited for a resort, conference center, hotel for frequent business travelers, and so on). Our franchisees seek customers and business referrals from the local community and typically solicit business from conventions, and tour and travel groups, on a regional and national level. Business and leisure travelers, meeting planners and attendees, and organizers of and attendees of social functions constitute a significant portion of GuestHouse Extended Stay events. In general, you will compete with national hotel and motel chains and independently-operated local hotels and restaurants 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, you also may compete with lodging designed to serve particular segments of the market and to fill particular lodging demands.

ITEM 2. BUSINESS EXPERIENCE

John Murray – President and Director

Beginning on April 1, 2022, Mr. Murray will serve as our, SRLHCF's, and RLHC's President, and as President and Chief Executive Officer of Sonesta and President of Sonesta's subsidiaries. Mr. Murray will continue to serve as our, SRLHCF's and RLHC's director after being appointed in March 2021, and as Sonesta's director after being appointed in March 2019. Also, as of April 1, 2022, Mr. Murray will serve as President of each of the following entities, each located in Newton, Massachusetts: Auburn Hills Suites LLC; Auburn Hills ES LLC; Schaumburg Suites LLC; Schaumburg ES LLC; and Hill Country Galleria Hotel LLC. Mr. Murray also holds the following positions, each located in Newton, Massachusetts: Executive Vice President of the RMR Group, LLC, and its subsidiaries since 2001; Managing Trustee of Service Properties Trust and its subsidiaries since April 2018 (while also serving as its and their President and Chief Executive Officer from 1996 through March 2022); and Managing Trustee of Industrial Logistics Properties Trust and its subsidiaries since December 2018 (while also serving as its President and Chief Executive Officer from December 2018 through March 2022). Mr. Murray 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 and 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; Secretary of Diversified Healthcare Trust and its subsidiaries since December 1998, and Managing Trustee and director of the subsidiaries from March 2018 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 AlerisLife Inc. (f/k/a Five Star Senior Living Inc.) and its subsidiaries since September 2001, and Managing Director and director of the subsidiaries since February 2020; Managing Trustee of Office Properties Income Trust and director of its subsidiaries since June 2021, and Secretary since February 2009; Secretary of Seven Hills Realty Trust (f/k/a 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. 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.

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 the result of a non-compete agreement with Domio, as well as from February 2020 to August 2020. Mr. Quinn is based in Denver, Colorado.

Shane Platt – Senior Vice President, Franchise Development

Mr. Platt has served as our and SRLHCF's Senior Vice President, Franchise Development since March 2022. Since January 2022, Mr. Platt also has served on the advisory board for Visual Matrix in Richardson, Texas. From January 2019 to October 2021, Mr. Platt served as Senior Vice President Franchise Sale and Development of Wyndham Hotels in Parsippany, New Jersey. From August 2016 to January 2019, Mr. Platt served as Managing Director Franchise Sales of Best Western in Phoenix, Arizona. Mr. Platt was between positions from November 2021 to December 2021. Mr. Platt is based in Southlake, Texas.

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 Seven Hills Realty Trust (f/k/a RMR Mortgage Trust) and its subsidiaries, and director of its subsidiaries, since April 2017; Managing Director of AlerisLife Inc. (f/k/a Five Star Senior Living, Inc.), and director of its subsidiaries, since March 2018; Director of Tremont Realty Capital LLC (f/k/a Tremont Realty Advisors LLC) since March 2016 (while also serving as its President and Chief Executive Officer from March 2016 through December 2017); and Managing Director of Travel Centers of America Inc., and director of its subsidiaries, since January 2018. Mr. Portnoy is based in Newton, Massachusetts.

ITEM 3. LITIGATION

Litigation Relating to the Merger:

Eight individual lawsuits were filed by purported RLHC stockholders in United States District Courts in connection with the 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 these eight lawsuits, 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 failed 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 were generally the same, and included a request: for an injunction enjoining the proposed Merger and any vote on the proposed Merger until defendants disclosed and disseminated the allegedly omitted material information; for rescission of the Merger in the event the defendants consummated the Merger (or an award of rescissory damages); for dissemination of a proxy statement that did not contain allegedly untrue statements of material fact and that did 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. In response to those lawsuits, RLHC filed a Form 8-K (Current Report) on March 9, 2021, which included certain supplemental disclosures in order to moot plaintiffs’ disclosure claims and avoid further nuisance and business delays. As of March 31, 2021, the plaintiffs in each of these eight lawsuits voluntarily dismissed their respective claims, and on September 8, 2021, the parties entered into an agreement that provided for a mutual release of claims and for RLHC to pay the plaintiffs’ attorneys an aggregate amount of \$240,000 in fees.

Two individual lawsuits, which were later consolidated, were filed by purported RLHC stockholders in Washington state court in connection with the Merger:

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 these two lawsuits, 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 contained 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 were generally the same, and included a request: for an injunction enjoining the proposed Merger until defendants disclosed and disseminated the allegedly omitted material information; for rescission of the Merger in the event the defendants consummated 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. After the two lawsuits were consolidated, both of plaintiffs' claims were dismissed with prejudice on December 13, 2021. A notice of appeal was filed by the plaintiffs on December 14, 2021.

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 422nd 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.

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

Initial Fee

You must pay us an initial fee equal to the sum of (a) \$20,000 plus (b) the product of \$150 times the number of Guest Rooms in excess of 60 (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, unless we have agreed to permit you to make installment

payments, in which case you will sign a promissory note and make payments as provided under the promissory note. See Item 10 for additional details relating to initial fee installment payments. We didn't provide financing or incentives to any franchisees in 2021.

"Guest Rooms" means transient hotel rooms located at the Hotel and is not dependent upon occupancy of the hotel rooms. By way of example, if your Hotel has 70 Guest Rooms, the Initial Fee will be \$21,500 (\$20,000 plus \$150 times 10).

Other Initial Fees

You will pay us an onboarding administration fee of \$1,000 for the onboarding services we provide to you in connection with the opening of your Hotel under the Brand. This fee is non-refundable and is due during or immediately after the onboarding process.

You will be required to pay a \$445 property management system ("PMS") Interface and Tokenization Set Up Fee, which is charged by our third-party central reservation system ("CRS") provider, for setting up an interface with your PMS. We will collect this PMS Interface and Tokenization Set Up Fee from you and remit to our CRS provider. This fee will be due when billed and is non-refundable.

If you are converting an existing hotel into a Brand Hotel, we may issue you a Property Improvement Plan ("PIP") to which you must agree as a condition of approval that sets forth a list of items you must perform to conform your Hotel to the Brand Standards prior to your Opening Date (or within such timeframe as may be stated in the PIP). If we issue you a PIP, we may require you to pay us a non-refundable \$1,000 fee, before we approve you as a Franchisee, to cover the cost of preparing or verifying completion of the PIP (the "PIP Fee"). "Opening Date" means the date your Hotel opens for business under the Brand.

You must pay us to install certain components of your Hotel system and for initial training on some of those systems. The components you implement for your Hotel will depend upon the complexity of your Hotel, such as the size and location, and may include some or all of the following: the central reservations system, guest satisfaction surveys and online reputation management, property management system, dynamic web and mobile website, revenue management software, central reservations office, customer relationship management system, and translation services. The system installation fee typically ranges from \$13,000 to \$27,000, depending on the components you choose to implement. The invoice for this fee will not be issued to you until the calendar month after the opening of your Hotel. This fee is non-refundable.

If you do not begin the construction of your Hotel by the scheduled start date, you will pay us a construction start date extension fee in the amount of \$5,000.

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

If you are a new franchisee that is acquiring an existing Brand Hotel from a current franchisee of the Brand, that particular franchisee's franchise agreement may provide for a particular transfer fee to be paid as part of the transfer, which is calculated pursuant to our current "application fee". As shown above, we now call the "application fee" the "Initial Fee," and as such, any references to "application fee" in existing franchise agreements of the Brand are referred to, and calculated, as the Initial Fee, as described above.

ITEM 6. OTHER FEES

TYPE OF FEE^{1,2}	AMOUNT	DUE DATE³	REMARKS
Brand Fee	\$60 per Guest Room, per month, subject to a monthly minimum calculated based on 50 Guest Rooms	Payable monthly by the 20 th day of the following month	See Notes 3, 4 and 5.
Operations Insights Fee	\$69.50 per month	Payable monthly by the 20 th day of the following month	We periodically may increase this Operations Insights Fee. Operations Insights includes online review tools and quality assurance self-assessment tools. We periodically may add additional tools and change the components or restructure the program.
Brand Conference Fee	\$100 per month	Payable monthly by the 20 th day of the following month	This fee covers the attendance for one person at the brand conference. If you are permitted to send additional attendees, you will be required to pay an additional \$695 per attendee prior to their attendance at the conference. We periodically may increase the conference fee. You also will be responsible for the travel costs and expenses for your attendees.
PMS-to-CRS Enhanced Connectivity Fee with HAPI	\$99 per month	Payable monthly by the 20 th day of the following month	You will pay a PMS-to-CRS enhanced connectivity fee. These fees are dependent on third-party fees charged by third-party providers and are collected by us and remitted to them, although we may retain a portion of the fee for administrative expenses. This fee is subject to increase.
Brand Training Fee	Currently, \$1,500 plus travel costs and expenses	As billed	If you prefer to have our trainers provide more in-depth training at your location rather than completing the introduction to the Brand through the Access Point Owner's Portal (see Item 11), you will pay us our training fee and expenses for a day and a half training. The introduction to the Brand training must be completed within three months of activating your Hotel in the CRS.
In-Person Ongoing Training Fee	\$1,000 for up to two days of training for you and your Hotel staff	As billed	If you request training at one of our corporate offices, you must pay the travel, wages, living expenses and miscellaneous expenses of those who attend in addition to this training fee. See Item 11.
Loyalty Program	Currently we do not charge a fee in connection with our Loyalty Program	If required, payable monthly by the 20 th day of the following month	See Note 7.

TYPE OF FEE^{1,2}	AMOUNT	DUE DATE³	REMARKS
Subsequent Onboarding Administration Fee in connection with change of ownership	Currently, \$1,000 per change of ownership	Before change of ownership	Upon any transfer of voting or ownership interests in you if you are a legal entity, or in any of your owners if such owners are legal entities, you or your transferee must immediately pay us an onboarding administration fee for such transfer for the onboarding services we provide in connection with new ownership of the Hotel. This subsequent onboarding administration fee applies to each transfer and is subject to change.
Late Payment Charge	The lesser of (a) 1.5% of the overdue amount or (b) the maximum rate allowed by law	Upon demand	You may be assessed this charge if any payment you owe us is overdue.
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 CRS and access to any revenue-generating or revenue-related programs because of a default under your Franchise Agreement, and you have cured the default, we may require you to pay this as a condition of reactivation. Although we may periodically may change the amount of the fee, it will not exceed \$5,000.
Guest Relations Program Fee	\$25 to \$125 per issue	Payable monthly by the 20 th day of the following month	See Note 8.
Online Review Response Program Fee	\$39 to \$150 per response	Payable monthly by the 20 th day of the following month	See Note 8.
Accelerated Property Experience (“APEX”) Fee	Currently, \$1,000 plus the cost of transportation, accommodations and meals	As incurred	See Note 9.

TYPE OF FEE ^{1,2}	AMOUNT	DUE DATE ³	REMARKS
Termination Fee Upon Early Termination Following your Default or Termination by you Without Cause	(a) The "Termination Fee" calculated as described in Note 10, plus (b) all amounts owed for periods before termination date, including payments due under annual or multi-year commitments (whether incurred by you directly or by us on your behalf), and any unpaid start-up or connectivity fees.	Within 10 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 Termination Fee as liquidated damages. You also must pay us the Termination Fee 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 "GuestHouse Extended Stay Hotel," you must pay us liquidated damages to compensate us for damage to the Proprietary Marks. You also must reimburse us for our costs of enforcing our rights.
Pre-Opening Termination Fee	<p>If your Franchise Agreement is for the conversion of an existing hotel to the Brand, a lump sum equal to \$1,200 for each Guest Room approved on the Rider to the Franchise Agreement.</p> <p>If your Franchise Agreement is for the development of a new hotel under the Proprietary Marks, a lump sum equal to \$3,600 for each Guest Room approved on the Rider to the Franchise Agreement.</p>	Upon demand	You must pay us this lump sum Termination Fee if we terminate the Franchise Agreement for your breach before the authorized opening of your Hotel.
Public Relations & Crisis Management	\$1,000 per crisis situation and any out-of-pocket expenses we incur.	As billed	See Note 11.
Third-Party Distribution Program Fees	Varies based on third-party fees.	Payable monthly by the 20 th day of the following month	These fees are payable to us in connection with the processing of certain transactions associated with the Third-Party Distribution Program and includes an administrative fee for our services. See Note 12.

TYPE OF FEE^{1,2}	AMOUNT	DUE DATE³	REMARKS
Travel Agency Commission Settlement Fee	Up to \$0.85 per transaction	Payable monthly by the 20 th day of the following month	See Note 13.
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	Amount of damages suffered	Upon demand	You must indemnify us and our affiliates, and our and their respective officers, directors, owners, employees and representatives for all damages any of those parties suffers and costs any of those parties incur relating in any manner to your ownership or operation of your Hotel, including enforcement costs.
Failure to De-Identify	\$500 per day	Upon demand	If you fail to comply with all of your de-identification obligations within 30 days after the expiration or early termination of your Franchise Agreement, you must pay us this fee for each day in which you are in breach of your obligations. You need not pay these amounts if you can demonstrate to our satisfaction that it was impossible for you to timely cease or cause the cessation of any use of any Proprietary Marks we assert has not been timely ceased. This is in addition to other damages and remedies to which we may be entitled under applicable law.
Administrative Fee for other requests	Up to \$2,500 plus any additional costs we may incur.	When you submit request	Administrative fees arising from extraordinary services such as amendments you request; amendments necessitated by your action or inaction (such as a lease amendment); lender comfort letters; and similar services.
Reservation Fees	Ranges from \$2.75 to \$8.00 per reservation	Payable monthly by the 20 th day of the following month	See Note 14.
Meetings and Events	3% on consumed master folio per group	Payable monthly by the 20 th 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 Companies ("TMCs") and Consortia Fees	Listing fees that vary or \$3.50 per room night	Payable monthly by the 20 th day of the following month	If you receive reservations through TMCs or consortia, you will pay either a listing fee or a transaction fee of \$3.50 per room night, depending on our arrangements with the respective third parties. You also will be responsible for any commission or other remuneration payable to the TMC or consortia participant.

TYPE OF FEE^{1,2}	AMOUNT	DUE DATE³	REMARKS
Corporate Account Support Subscription and Services Fee	Up to \$1,800 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.
PIP Fee	\$1,000 per issued PIP	As issued	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 and/or guest comments have raised concerns with your compliance with Brand Standards, we may issue a PIP to you and charge you a PIP fee.
Design Review Fee	\$100 per hour (minimum five hours)	As incurred	Each time you intend to make certain renovations to your Hotel, whether based on an issued PIP or separate renovations, you must submit your design plans to us in advance for review and approval. We will charge you an hourly fee (minimum five hours) to review such design plans.
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.
Notices	Varies	As billed	For any notice we send to you by commercial courier service, as permitted by the Franchise Agreement, we may require you to reimburse us for the shipping expenses.
Insurance	Varies	As billed	If you do not obtain or maintain the required insurance or policy limits described in the Brand Manual, then we can (but are not obligated to) obtain and maintain insurance for you without first giving you notice. If we do so, then you must immediately pay us the premiums and the cost we incurred when we request you to pay. See Item 7.
Processing Fee for "Permitted Transfers"	\$20,000	When you submit transfer consent request	If you propose a "Permitted Transfer" (not a Change of Ownership – see Item 17), you must submit a Permitted Transfer Consent Request with all required information and the non-refundable processing fee.
Fees for Change of Ownership	Proposed owner must submit an application and pay the then-current Initial Fee.	Upon or before execution of the Franchise Agreement	Any proposed transfer that does not qualify as a Permitted Transfer will be considered a Change of Ownership. If there is a proposed Change of Ownership and proposed owner desires to continue to operate the Hotel in accordance with the Brand Standards, proposed owner must submit an application for a new franchise agreement and pay the then-current non-refundable Initial Fee. We also require the proposed owner to comply with a PIP in the event we determine there are renovation requirements for the Hotel.

TYPE OF FEE^{1,2}	AMOUNT	DUE DATE³	REMARKS
Photography Expenses	\$1,000 to \$3,000	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.
Revenue Management For Hire	\$750 per month up to 250 rooms	Payable monthly by the 20 th day of the following month	Note 15 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. See also Note 16.
Market Intelligence	Up to \$225 per month	Payable monthly by the 20 th day of the following month	Includes property-specific market benchmarking and rate shopping tools. See Note 16.
American Hotel & Lodging Association ("AHLA") Fee	\$3.00 per room per year	Payable annually, as billed	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.
Room Addition Fee	Per Guest Room Initial Fee multiplied by the number of additional Guest Rooms	When you submit an application to add Guest Rooms	If you add or construct additional Guest Rooms at the Hotel after signing the Franchise Agreement, you will pay us the room addition fee for each additional room.
Reservation System Maintenance Fee: Future Rate and Inventory	\$250 – 1 st occurrence \$500 – 2 nd occurrence \$1,000 – per occurrence thereafter	Payable monthly by the 20 th day of the following month	We charge this fee if you fail to meet our performance standard of maintaining on the CRS at least 12 months of your advance room rates and inventory at all times.
Reservation System Maintenance Fee: CRS Services	\$150 per occurrence	Payable monthly by the 20 th day of the following month	You incur this fee if you request additional assistance with performing CRS maintenance.

Note 1 – Except as indicated otherwise, all fees in this Item 6 are payable to us, are nonrefundable, and may not be uniformly applied. We periodically may reduce or waive fees.

Note 2 – You must pay us by means of an automated payment system using automatically recurring electronic funds transfer that we initiate ("Recurring EFT"), also known as Auto Pay. We may process the transfers at the time any payment is due and owing. Failure to fund your account at the time of a Recurring EFT withdrawal, or failing to enroll in Recurring EFT payments, will constitute a breach of your Franchise Agreement. 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 periodically may change your required method of payment with at least 30 days' prior written notice.

Note 3 – Your obligation to make monthly payments of the Brand Fee will begin on the Opening Date. If you sign a Franchise Agreement in connection with the acquisition of an existing GuestHouse Extended Stay-branded hotel, your obligation to make monthly payments of the Brand Fee will begin on the date you close the acquisition of the Hotel. Whether a conversion,

new construction or acquisition, you must make payments for all other fees and commissions from the time those fees are incurred, regardless of the Opening Date.

Note 4 – Subject to a 50 Guest Room minimum, the Brand Fee is based on the number of Guest Rooms at your Hotel and is not dependent upon the Hotel's occupancy. The Brand Fee includes marketing and distribution services; and access to our proprietary loyalty program. These fees do not cover the cost of operating your Hotel in accordance with the Brand Standards. We also may offer additional optional programs to you during the Term. The Brand Fee may be increased during the Term upon 30 days prior written notice to you, by a maximum of 3% per calendar year.

Note 5 – You must honor the terms of any discount or promotional programs (including any loyalty program) that we or our affiliates offer to the public on your behalf and that we decide to adopt for the Brand, unless we designate the program as one for which an opt-in or opt-out choice is available. You also must honor any room rate quoted to any guest at the time the guest makes an advance reservation and any complimentary stays provided to guests participating in the programs we adopt for the Brand.

Note 6 – Your ability to utilize RLHC's Revenue Management Software will depend on the compatibility of your PMS.

Note 7 – Your Hotel must participate in our loyalty program (as it may be modified) for as long as we choose to offer such a program. We may run periodic promotions in which guests that participate in our loyalty program receive discounts on room stays. See Item 11 for additional details related to our current loyalty program.

Note 8 – Under our Guest Relations Program, you will pay us a \$25 fee for every guest or other complaint we receive. If the issue raised is not resolved to our satisfaction 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 we will charge you 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 to \$150 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). We may periodically modify these programs, including an increase or otherwise change in fee structure..

Note 9 – As a general rule, we do not anticipate conducting an annual inspection of your Hotel. Rather, we largely will rely on guided self-assessments by you; guest reviews and other online reputation resources; and feedback we receive from guests and our colleagues, including vendors. If (a) we become concerned, based on guest complaints, online reviews, or otherwise, about the condition of your Hotel or the services it offers; or (b) you request our assistance, then we may arrange a visit to your Hotel to undertake improving its online reputation, including its TripAdvisor Score. We call this process our Accelerated Property Experience, or "APEX." We may periodically change our inspection, re-inspection, assessment, or APEX program and fees.

Note 10 – The Termination Fee will be \$2,500 multiplied by the number of Guest Rooms in your Hotel. This termination fee is in addition to any other damages and remedies to which we may be entitled under applicable law.

Note 11 – In the event we deploy our public relations and crisis management team as a result of a situation at your Hotel, we will charge you a fee of \$1,000 plus actual costs we incur. We also may, but are not obligated to, initiate this service to act on behalf of your Hotel for the benefit of the Brand, us or RLHC or our and their affiliates. In that case, we may charge you an additional \$300 per hour for such services. The fee and hourly rates are subject to change.

Note 12 – We participate in most major distribution channels and we or our affiliates have established enterprise-level agreements with many of the leading intermediaries, including online travel agencies (“OTAs”), that allow them to offer your hotel room inventory through their websites including, in some cases, rooms at our loyalty program member rates (collectively, the “Third-Party Distribution Program”). You must participate in the Third-Party Distribution Program, under the terms and conditions we have negotiated, including pricing terms. You are responsible for the payment of all reservation fees, including third-party booking fees, GDS fees, and fees associated with the CRO (call center) and CRS, in connection with stays booked at your Hotel through their websites. Those fees are subject to change by the applicable third-parties. You must connect to all third-parties through our CRS, unless such third-party does not directly or indirectly offer interfaces to the CRS. You must maintain rates and inventory in the CRS 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 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 \$250. For repeated occurrences requiring additional notice to you, we may charge you additional fees.

Note 13 – 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 periodically may 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 14 – Each reservation is subject to the following fees: \$2.75 through Central Reservations System Internet Booking Engine for Web and Mobile Direct reservations; \$3.25 through Central Reservations System Direct Connect interfaces to associated onward distribution channels; \$4.00 through Central Reservations System Internet Distribution System to onward distribution switch or channel manager providers; \$7.00 through the Central Reservations Office for all voice reservations; and \$8.00 through the Central Reservations System for reservations sourced from the Global Distribution Systems. Separately, you must pay all other costs, including third-party costs and fees incurred through the Central Reservation Service. Fees are subject to change. In addition, you must pay any relevant travel agencies a commission on room revenue they generate by booking stays at your Hotel. Reservation or booking fees will be charged for cancelled reservations unless they are cancelled through the same channel in which they were made. We may charge \$3.50 per room night for reservations made through Consortia or Travel Management Companies (plus applicable commission).

Note 15 – 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). We do not represent or warrant that your Hotel's performance will improve as a result of participating in our revenue management program and we are not liable for poor performance.

Note 16 – We may grant a request by a GuestHouse Extended Stay Hotel that does not have a Hotel Revenue Manager to forego using our Revenue Management for Hire program, under limited circumstances. In such cases (typically available only to Hotels in secondary or tertiary markets with fewer than 75 Guest Rooms), the Hotel may be required to utilize our Revenue Strategy Support program, which offers consultative services with a revenue management specialist. Pricing for this service is up to \$225 per month, based on the size and market of the GuestHouse Extended Stay Hotel. We also may require such a Hotel to subscribe to certain tools in lieu of Market Intelligence, the cost of which tools presently is \$79.50 per month.

ITEM 7. ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT (Note 1)					
Type Of Expenditure	Amount		Method Of Payment	When Due	To Whom Payment Is To Be Made
	New Construction	Conversion			
Initial Fee (Note 2)	\$21,500	\$21,500	Lump Sum	Upon your signing of the Franchise Agreement	SRLHF
Onboarding Administration Fee	\$1,000	\$1,000	Lump sum	When billed	SRLHF
System Installation Fee	\$13,000 to \$27,000	\$13,000 to \$27,000	As arranged	When billed	SRLHF and Third-parties
PIP Fee (Note 3)	N/A	\$0 to \$1,000	Lump sum	Before we approve you as a Franchisee	SRLHF
PMS Interface and Tokenization Set Up Fee (Note 4)	\$445	\$445	As arranged by you	As incurred	SRLHF
Market Study (Note 5)	\$0 to \$7,500	N/A	As arranged by you	Before opening	Third-parties
Real Estate, Legal and Title Expenses (Notes 1 and 6)	Variable	Variable	As arranged by you	Before opening	Third-party sellers, landlords
Permits, Licenses, Plans, Etc.	\$135,000 to \$290,000 (Note 7)	Variable (Note 8)	As arranged by you	Before opening	Suppliers, governmental authorities
Construction Costs	\$2,250,000 to \$4,800,000 (Note 9)	Variable (Note 8)	As arranged by you	Before opening	Contractors, vendors and suppliers

YOUR ESTIMATED INITIAL INVESTMENT (Note 1)					
Type Of Expenditure	Amount		Method Of Payment	When Due	To Whom Payment Is To Be Made
	New Construction	Conversion			
Furniture, Fixtures and Equipment ("FF&E") (Note 10)	\$1,009,000 to \$1,350,000	\$426,000 to \$1,430,000	As arranged by you	As incurred	Vendors and suppliers
Exterior Signage (Note 11)	\$15,000 to \$60,000	\$5,000 to \$30,000	As arranged by you	As incurred	Vendors and suppliers
Communications Equipment (Note 12)	\$25,000 to \$50,000	\$5,000 to \$15,000	As arranged by you	As incurred	Vendors and suppliers
Computer System (Note 13)	\$12,000 to \$50,000	\$2,000 to \$15,000	As arranged by you	As incurred	Vendors and suppliers
Inventory/Supplies (OS&E) to Begin Operating (Note 14)	\$151,000 to \$160,000	\$47,500 to \$177,000	As incurred	Before opening	Vendors and suppliers
Other Pre-Opening and Grand Opening Expenses (Note 15)	\$100,000 to \$300,000	\$25,000 to \$50,000	As arranged by you	Before opening	Vendors, suppliers, other third parties
Insurance (for 12 months) (Note 16)	\$14,400 to \$33,800	\$0 to \$33,800	As arranged by you	As incurred	Insurance providers
Wireless HighSpeed Internet Access with branded landing page (Note 17)	\$1,000 to \$10,000	\$1,000 to \$10,000	Lump sum	Upon implementation	Vendors and suppliers
Construction Start Date Extension Fee (Note 18)	\$0 to \$5,000	N/A	Lump sum	As incurred	SRLHF
Lender Comfort Letter Fee (Note 19)	\$2,000	\$2,000	Lump sum	As incurred	SRLHF
Photography Expenses (Note 20)	\$0 to \$5,000	\$0 to \$5,000	As arranged by you	As arranged, before opening	Supplier
Additional Funds (3-month initial phase) (Note 21)	\$30,000 to \$90,000	\$30,000 to \$90,000	Various	As incurred	Employees, suppliers, etc.
Total	\$3,780,345 to \$7,263,245	\$579,445 to \$1,908,745			

Note 1 – We have estimated costs based on a 70-room GuestHouse Extended Stay Hotel. We have relied on our and our affiliates' management's years of experience in the lodging business to compile these estimates.

Note 2 –The Initial Fee for a GuestHouse Extended Stay Hotel with more than 60 rooms is \$20,000, plus \$150 times the number of Guest Rooms in excess of 60. The Initial Fee is non-refundable.

Note 3 – We may issue you a PIP that sets forth a list of all items you must perform prior to your Opening Date (or within some other timeframe stated in the PIP) to conform your hotel to the Brand Standards. If we issue you a PIP, we may charge you a non-refundable \$1,000 fee to cover the cost of preparing or verifying completion of that PIP.

Note 4 – This amount is charged by our third-party CRS provider for setting up an interface with your PMS. We will collect this PMS Interface and Tokenization Set Up Fee from you and remit to our third-party CRS provider.

Note 5 – You may choose (or your lender, if applicable, may require you) to conduct a market study before selecting a location for your Hotel. A market study will look at local demographics and potential sources of business and other business drivers in a market; analyze the current demand and supply for hotels in a particular market; forecast the demand and supply in a market; determine the availability of workers in a particular market; and analyze the competition in a market, among other things.

Note 6 – It is difficult to estimate real estate costs. These costs vary widely by reason of location, type of market, size of parcel, competitive market conditions and type of interest acquired; we anticipate that a 70-room GuestHouse Extended Stay Hotel will have a building area of approximately 50,000 square feet and be located on approximately two acres of land. Additional costs incident to real estate may include legal fees and title recording expenses, all which vary by location.

Note 7 – These amounts include the cost of architects and engineers and construction plans, as well as local fees (including building permits, licenses and environmental impact fees), which vary widely depending on your specific location and situation, as well as the design selected by you, and may be significantly greater than shown in this table. You should consult with your attorney to determine any applicable licensing or permit fees you must obtain to operate your Hotel.

Note 8 – For conversions, you will incur costs to bring your existing property into conformity with the Brand Standards as specified in your Franchise Agreement. We cannot estimate these costs at this time as they vary significantly based upon the amount, type and physical condition of the hotel's existing property, fixtures, equipment, furnishings, furniture, signage, and similar items.

Note 9 – Construction costs may vary due to unusual conditions associated with site, preparation, foundations, etc., as well as the size and configuration of the site, the market and the cost of labor and materials.

Note 10 – For new developments, these estimates include FF&E for public spaces and Guest Rooms (including full kitchenettes in 10 Guest Rooms and mini kitchenettes in the remainder of the Guest Rooms) but does not include public area kitchen equipment, back-of-the-

house equipment, plumbing or electrical for kitchenettes, or pools, as those vary significantly by property and build. For conversions, the lower end of these estimates assumes that current FF&E is in good condition and meets Brand Standards.

Note 11 – 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 location, and may exceed the estimates indicated.

Note 12 – These amounts include estimates for the cost of a telephone switch and other telephone and communications equipment, including the cost of high-speed Internet access equipment that meet our Brand Standards.

Note 13 – These amounts include the computer hardware and software necessary to operate your Hotel, including the initial license of a PMS. The exact cost of your computer system will depend on the other technology options you select, subject to our minimum standards.

Note 14 – These amounts include OS&E for Guest Rooms (including some supplies for kitchenettes), coffee brewing equipment, front desk branded area rugs, public area yard games; communal table, and common area marketing materials. The amount may differ based on the mix of room types at your Hotel. Estimates do not include other food and beverage equipment, housekeeping equipment, or other OS&E, or freight charges, taxes, tariffs, installation or similar fees.

Note 15 – 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 the property'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 16 – You must, at your own expense, keep in force insurance policies for your Hotel. We may change types and amounts of coverage. This estimate is based on our current requirements which are described in detail in Item 8 of this disclosure document. You will likely have to prepay all or a portion of the first year's premiums for insurance. The premiums may vary widely depending on a number of factors, such as the type of building construction, location of your Hotel, revenue of your Hotel, and your loss history. The low end of the estimate for a conversion hotel assumes you have the specified minimum insurance.

Note 17 – You must maintain wireless highspeed internet access meeting our minimum specifications (including as relates to bandwidth, multiple device usage, area coverage and security) and which includes our branded landing page, delivered using the software we designate.

Note 18 – This fee is payable only if you request and we agree to grant an extension of the construct start date identified by us in writing.

Note 19 – This is to cover our administrative fees arising from review and processing of lender comfort letter requests.

Note 20 – We may require you to hire a professional photographer to take photographs of your Hotel prior to the opening of your Hotel.

Note 21 – The additional funds represent certain expenses that you will incur in the operation of the business. You may need these funds to operate your Hotel during its three month initial phase following activation in our CRS. The estimated amount covers items such as payroll costs, rent, utilities, on-going advertising, facility expenses, security, and maintenance - but does not include any salary or allowance for an owner's draw, any amounts you must pay us, or any additional inventory you may need after your initial inventory is consumed. The actual amount of additional funds you will need during the initial phase of operating will depend on factors such as: the size and location of your Hotel; the extent to which you follow our suggested methods and procedures; your management skill, experience, and business acumen; local economic conditions; the local market for your Hotel; competition; and other factors. We do not finance any portion of your initial investment other than the possible financing of a portion of the Initial Fee.

ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Authorized Specifications and Suppliers

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 (or constructing) 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 CRS, PMS, and revenue management systems; 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.

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 Proprietary 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 1% to 4% of net or gross sales on such items as FF&E, operating/maintenance equipment and supplies, merchant processing, services, and food and beverage products from purchases made by franchisees or by Network Hotels we own or manage.

Management and Entertainment Technology Systems

You must purchase and maintain property management, revenue management, central reservations, in-room entertainment, telecommunications, and other computer and technology systems we designate as Brand-wide (or area-wide) programs based on our assessment of the best interests of GuestHouse Extended Stay Hotels, considering the interest of the Brand as a whole, as set forth in the Brand Manual or otherwise in writing. You will not maintain more than one property management or revenue management system in connection with the operation of

the Hotel and all OTAs 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. All reservations will be processed and all revenue reported through the property management and revenue management system.

Computer System

Other than certain required credit card interface hardware, we do not currently have any specific hardware requirements. However, before commencing operation of your Hotel, you must ensure the PMS that we designate is installed at your Hotel in compliance with the specifications described in the Brand Manual or otherwise in writing, that it is fully operational, and that your staff is properly trained in its use. We periodically may revise the specifications and we may require you to use our designated suppliers.

Please see the further discussion related to your PMS and other technology requirements in “Computer Systems” under Item 11, below.

Insurance

You must procure and maintain, at your expense, such types of insurance coverage in the types and amounts we periodically require, in addition to any other insurance that may be required by applicable law, your landlord, your mortgagee, or otherwise. At a minimum, such policies shall include the following (primary and excess/umbrella policies may be used in any combination as long as the total minimum limit requirements are met):

- Commercial general liability (“CGL”) insurance for any claims or losses arising or resulting from the operations/premises of the hotel with limits of not less than \$1,000,000 per occurrence and a general aggregate limit not less than \$3,000,000; limits shall apply on a per location aggregate basis if the hotel is insured under a blanket policy;
- Property/all risk 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, all in an amount not less than 90% of the replacement cost;
- Boiler & machinery insurance against loss or damage from explosion of boilers or pressure vessels to the extent applicable;
- Business interruption insurance covering at least 12 months loss of profits and necessary continuing expenses for interruptions caused by a covered occurrence;
- Workers’ compensation insurance in statutory amounts for all your employees and employer’s liability insurance in amounts not less than \$1,000,000 per accident/disease;
- Liquor liability (applicable only when or if you distribute, sell, serve, or furnish alcoholic beverages) with limits of not less than \$1,000,000 per occurrence; limits shall apply on a per location aggregate basis if the hotel is insured under a blanket policy;
- Automobile liability insurance including owned, non-owned and hired vehicles for combined single limits of bodily injury and property damage of not less than \$1,000,000 per occurrence and a general aggregate limit not less than \$3,000,000; and
- Garage-keeper’s liability to the extent that the hotel operations include parking operations,

with a limit adequate to cover the full actual value of all automobiles that are in your care, custody, and control at any one time.

Additionally, we strongly recommend that you carry employment practices liability insurance, cyber liability insurance, and crime insurance that covers employee dishonesty.

Each of the insurance policies must: (i) be written by an insurance company with an A.M. Best rating of "A" or better; (ii) to the extent legally permissible, name us, our affiliates, and our and their respective officers, directors and employees as additional named insureds and loss payees for all liability coverage policies; (iii) provide that the coverages will be primary and that any insurance carried by us will be excess and non-contributory; and (iv) provide that all coverages afforded to us (and our affiliates) will be coextensive with the coverage provided to you or any named insured on such policy, and any language in such policy that purports to limit the coverage available to us (and our affiliates) will be deemed deleted as to us (and our affiliates). We periodically may change the amounts of coverage required under the insurance policies and require different or additional kinds of insurance, including excess liability insurance. All insurance may be effected under policies of blanket insurance which cover your other properties and affiliates so long as such blanket insurance satisfies our requirements, as they periodically are modified. Within 10 days of the date you sign the Franchise Agreement, you must provide us certificates of insurance showing compliance with the insurance requirements; the certificate of insurance must include a statement that the policies will not be canceled without at least 30 days' prior written notice to us. Upon our request, you must supply us with copies of all insurance policies and proof of payment. You also must deliver renewal certificates to us not less than 10 days prior to each insurance policy's renewal date.

General

In the year ended December 31, 2021, RLHC received \$101,587 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, 2021. However, we and our affiliates may do so in the future.

During fiscal year ended December 31, 2021, RLHC and SRLHF derived \$11,048,160 and \$965,050, respectively, from purchases of goods and services by franchisees and licensees of all Network Brands, which in the aggregate represents approximately 24.2% of RLHC's total revenue of \$49,661,000.

We estimate that 15% to 20% of the products, services, supplies, furniture, fixtures, equipment and inventory used to establish a new GuestHouse Extended Stay Hotel, 5% to 10% used to convert an existing hotel into a GuestHouse Extended Stay Hotel, and 2% to 5% used to operate a GuestHouse Extended Stay Hotel are subject to our 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.

FRANCHISEE'S OBLIGATIONS		
Obligation	Section in Franchise Agreement	Disclosure Document Item
a. Site selection and acquisition/lease	Sections 6 a.(25) and (26); Attachments A-1 and A-2	Items 7 and 11
b. Pre-opening purchases/leases	Sections 6 a.(3), (6) and (8); Attachments A-1 and A-2	Items 5, 6, 7, 8 and 11
c. Site development and other pre-opening requirements	Section 6 a.(25); Attachments A-1 and A-2	Items 5, 6, 7, 8 and 11
d. Initial and ongoing training	Sections 3 a. and 6 a.(8)	Items 5, 6, 11 and 15
e. Opening	Attachments A-1 and A-2	Item 11
f. Fees	Sections 7, 11 b.(3)(a) and (b), 11 b.(4), 12 b., 14 c. and 14 d.; Attachments A-1 and A-2 and Rider	Items 5, 6, 7, 11 and 17
g. Compliance with standards and policies/operating manual	Sections 1 d., 1 j. and 6; Attachments A-1 and A-2	Items 8, 11, 13, 14, 15 and 16
h. Trademarks and proprietary information	Sections 1, 4, 5, 6 a. (23) and 14 d.	Items 13 and 14
i. Restrictions on products/services offered	Section 6.a	Items 8 and 16
j. Warranty and customer service requirements	Section 6.a	Items 6, 8 and 11
k. Territorial development and sales quotas	Not applicable	Not applicable
l. Ongoing product/service purchases	Sections 3.f and 6.a	Items 6, 8 and 11
m. Maintenance, appearance and remodeling requirements	Sections 3.f, 6.a.(3), (9) and (14) and 6 b.	Items 8 and 11
n. Insurance	Section 6.d; Attachments A-1 and A-2	Items 6, 7 and 8
o. Advertising	Sections 3.d., 5.c. and 6.a.(12)	Items 6 and 11
p. Indemnification	Sections 9, 11.b.(4), and 17.i.; Guaranty	Item 6
q. Owner's participation/management/staffing	Section 6.c	Item 15
r. Records and reports	Sections 6.a(33) and 8; Guaranty	Not applicable
s. Inspections and audits	Sections 3.d and 6.a(18)	Items 6 and 11
t. Transfer	Section 11	Items 6 and 17
u. Renewal	Not applicable	Item 17

FRANCHISEE'S OBLIGATIONS		
Obligation	Section in Franchise Agreement	Disclosure Document Item
v. Post-termination obligations	Sections 14.c and 14.d	Item 17
w. Non-competition covenants	Section 6.a(24)	Item 17
x. Dispute resolution	Section 15	Item 17
y. Guarantee	Attachment B	Items 1 and 15

ITEM 10. FINANCING

We generally require payment of the Initial Fee in a lump sum when you sign the Franchise Agreement. However, we may allow you to pay up to 75% of the Initial Fee in installments (typically 3 – 12 monthly payments), all of which must be paid before the start of construction or renovation work on your Hotel. If we permit you to pay the Initial Fee in installments, you will sign a promissory note in the form attached as Exhibit D-1 (the “Initial Fee Note”), when you sign the Franchise Agreement. We may, in our discretion, agree to forgive a portion of the principal amount of the Initial Fee Note if you are not in default under the Initial Fee Note; the amount that may be forgiven will be identified in the Initial Fee Note before you sign it. You may prepay the unpaid amount of the Initial Fee at any time, without penalty. If you default under the Franchise Agreement, the outstanding balance of the Initial Fee Note will become immediately due and payable, along with any court costs and attorneys’ fees for collection. No interest will accrue on the outstanding Initial Fee, except in the event of default, then the unpaid amount of the Initial Fee will accrue interest at the lower of 1.5% per month or the highest rate allowed by law, beginning on the 15th day after the date of default. See Item 5 for more details regarding the Initial Fee.

We may, in our sole discretion, offer incentives for hotels that are new to the 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. If an Incentive is granted to you, the amount of the Incentive shall typically comprise, at our discretion, between \$500 and \$1,500 per Guest Room of your Hotel. To receive an Incentive, you and your principals must sign a development incentive promissory note in the form attached as Exhibit D-2 (the “Incentive Note,” together with the Initial Fee Note referred to as the “Notes”), 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 30 days after the Hotel opens under the Brand with our approval, as long as you have completed any PIP and there have been no material adverse changes to the Hotel since approval (for example, a decrease in the number of Guest Rooms or a significant delay in opening under the Brand). 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 20-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 1.5% per month 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 either Note. Each person that has a 20% or greater legal or beneficial ownership interest in the franchisee entity must sign the Guaranty attached as Exhibit C to this disclosure document, personally guaranteeing your obligations under the Note(s).

Any default under the terms of either the Franchise Agreement or the Notes shall be deemed a default of both the Franchise Agreement and the Notes and we may pursue all remedies as available under the Franchise Agreement and Notes, and at law.

Both Notes provide for a waiver of presentment, demand for payment, protest, notices of protest, dishonor, nonpayment of the 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 Notes, nor do we receive any consideration for placing the Notes with a lender.

Except for the Initial Fee financing and 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. These programs 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

Before you open your Hotel under the Brand, we will provide you the following assistance (at our discretion):

- Provide you with online training designed to introduce you to the Brand. (Franchise Agreement, Section 3.a.(1))
- Provide you a copy of the Brand Manual (currently 85 pages), which may be provided in an electronic medium, including by download from our website. The Brand Manual is confidential and remains our property, and you must return it to us upon the expiration or earlier termination of the Franchise Agreement for any reason. (Franchise Agreement, Section 3.e). The table of contents of the Brand Manual is attached as Exhibit E.
- Assign a project manager or onboarding specialist to you. (Franchise Agreement, Attachments A-1 and A-2)
- Review the plans, layouts and specifications, drawings and designs for constructing and furnishing your Hotel, including guest suite areas. (Franchise Agreement, Attachments A-1 and A-2)
- Inspect your location and the course of construction or work at your Hotel to determine whether you are proceeding in accordance with the Franchise Agreement, the Brand Standards and the PIP, if applicable. (Franchise Agreement, Attachments A-1 and A-2).

- 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 3.f) See Item 8 of this Disclosure Document.

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

Post-Opening Assistance

During the operation of your Hotel, we will:

- Consider permitting your Hotel to conditionally open and operate, even though you have not yet fully complied with the terms of the Franchise Agreement, so long as you have signed the Franchise Agreement and are meeting your performance obligations under the Franchise Agreement and if you agree to fulfill all remaining terms of the Franchise Agreement, including any Rider or attachment, on or before the completion date set forth on the Rider, or any extension we approve. (Franchise Agreement, Attachments A-1 and A-2)
- Provide required and optional training programs at various locations. (Franchise Agreement, Section 3.a(1))
- Convene a Brand conference (no less frequently than every 18 months) at which Franchisees may gather to network and participate in educational seminars. (Franchise Agreement, Section 3.a(2))
- We will include your Hotel, or cause your Hotel to be included, in national or regional group advertising of GuestHouse Extended Stay Hotels, and in international, national and regional market programs offered by us, all subject to and in accordance with the general practice for GuestHouse Extended Stay Hotels. (Franchise Agreement, Section 3.c.)
- Provide you with the Third-Party Distribution Program, as long as that program remains in effect. (Franchise Agreement, Section 3.g)
- Provide you with a loyalty program (currently, Hello Rewards). (Franchise Agreement, Section 3.h)
- Provide you with access to our IT help desk, which supports our Access Point Owner's Portal and provides email troubleshooting (as well as support of the Opera PMS). (Franchise Agreement, Section 3.i)
- Provide you with the opportunity to participate in our Revenue Management for Hire program. (Franchise Agreement, Sections 6.a(10) and 7.h)
- Provide you with Operations Insights. (Franchise Agreement, Section 7.h)
- We will indemnify you and your successors and assigns, and the members, officers, directors, employees, agents, predecessors, successors and assigns of each such entity against, and hold them harmless from all costs and expenses of defense, including reasonable attorneys' fees, of any claim of infringement or violation of any patent, trademark or copyright or other proprietary right owned or controlled by third parties based upon your use of the Proprietary Marks and the Brand Standards. (Franchise Agreement, Section 10)

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.

Marketing and Advertising

Periodically, we or our affiliates may produce and make available to the traveling public a directory of GuestHouse Extended Stay-branded hotels, including your Hotel, which directory may take the form of a printed directory, online directory, or otherwise. Also, we or our affiliates may pay for various expenses and programs that, in our view, benefit, in the short-term or the long-term, the Brand, the GuestHouse Extended Stay-branded hotels, or any of the Network Hotels. We or our affiliates may enter into arrangements for development, marketing, operations, administrative, technical and support functions, facilities, programs, services or personnel with any other entity, including our affiliates.

Local Marketing

You must provide us, for our approval, all materials you intend to use for local marketing (and all other advertising and promotional materials and Online Presence (as defined below)), unless we have already approved them or they consist solely of materials provided by us. We will attempt to review these materials within 10 business days from when we receive them. If you do not receive written approval within those 10 business days, the submitted materials are considered disapproved. All materials on which the Proprietary Marks are used must include the applicable designation of service mark SM, trademark TM, registered trademark [®], copyright [©], or such other designation as we may specify. If, in our judgment, such materials or advertising may injure or harm the Brand, we may notify you to withdraw or discontinue the use of any advertising or promotional materials or Online Presence, even if previously approved. Within five days after delivery of such notice, you must withdraw and discontinue use of the relevant advertising and promotional materials or use of such Online Presence.

We currently do not require you to join a regional or local advertising cooperative, or any other advertising fund. We may form brand advisory boards in the future (see Item 20), which may provide input on advertising policies and other matters. Once established, we may suspend or disband it, at our discretion.

Websites, Social Media and Other Online Presence

You may not register, own, maintain or use any domain name, website, email address, social media account, user name, other online presence or presence on any electronic medium of any kind (collectively, the "Online Presence") relating to Network Brands 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 to maintain vanity or other independent Online Presences for GuestHouse Extended Stay 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. 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.

Your use of all Online Presence shall be subject to our 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 the social media pages we designate for any of the Network Brands. 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.

You must ensure, on an ongoing basis, that the description of your Hotel and its amenities and features, including those you believe make the Hotel and its premises accessible to persons with disabilities, is current and accurate in the CRS, on any Online Presence, and in any third-party distribution channels.

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 the Brand or any or all of the Network Brands. Currently Brand Hotels participate in our loyalty program referred to as "Hello Rewards," which permits participating guests to accumulate "Hello Bucks," that may be applied as credits towards stays in the future. Members of the Hello Rewards program also may receive promotional discounts on reservations; surprise amenities; and other methods of recognition, all of which are designed to be meaningful to the guest but affordable to the franchisee. This is not a points-based system and there is no additional cost to participate. Currently, you will receive (i) 90% of the amount the guest pays for all room nights on any booking in which Hello Bucks are applied, (ii) plus 90% of the value of the Hello Bucks applied, (iii) less all fees payable to us or our affiliated entities related

to such booking. We may either credit the amounts due to you against amounts you owe us or our affiliated entities, or we may issue payment of such amounts to you. We may periodically modify or discontinue the Hello Rewards program 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.

Computer Systems

You must use the PMS we designate (currently Opera by Oracle). The Brand Fee currently includes the licensing fees for the designated PMS. You will not maintain any PMS other than the PMS we designate in connection with the operation of your Hotel and all OTAs and other distribution channels must be connected to our CRS, or, if no connectivity is available for a particular distribution channel, through the designated PMS, unless directed or approved by us in advance in writing.

You must enable the PMS to provide direct full two-way connectivity with our CRS and loyalty program. We also require that you implement the Shift4 credit card interface. We may require additional interfaces in the future. We periodically may revise the specifications for your PMS, point-of-sale system, and related interfaces, and we may require you to use our authorized or designated suppliers.

You must make periodic upgrades and updates to the PMS that we require, including establishing interfaces to new programs that may become Brand Standards in the future. There are no contractual limitations on the frequency and cost of this requirement. We do not have any obligation to provide ongoing maintenance, repairs, upgrades or updates to your computer system. We require that you pay us a non-refundable onboarding administration fee of \$1,000 (as detailed in Item 5).

Other than the hardware required to operate Shift4 or other systems described above, we currently do not have specific hardware requirements.

You must use the software we designate to provide our exclusive authorized Internet landing page, and to integrate with our loyalty program. The installation cost to you will depend on your Hotel's integrator, network and gateway, but is expected to range between \$1,000 and \$10,000. A recurring monthly fee of \$1.50 per room per month, payable to the third-party provider, will be required, which fee is subject to annual increases. If we change the Brand-designated PMS in the future, you may be required to purchase, lease or license new or modified computer hardware, software and PMS.

We have the right to independently access and retrieve any data and information from your PMS. You must provide us with access and any assistance we require to provide us with this independent access. There are no contractual limits on our right to access this information and data.

Time between Signing Your Franchise Agreement and Opening the GuestHouse Extended Stay Hotel

If you are converting your existing hotel into a GuestHouse Extended Stay Hotel, the typical length of time between your signing of your Franchise Agreement and the opening of your business as a GuestHouse Extended Stay Hotel is expected to be 45 to 90 days from the date the agreement is signed. Factors that may affect this typical time period include your ability to install equipment, fixtures, and signage, and recruit competent staff, and to complete any required pre-opening PIP (including obtaining any requisite building permits, certificates of occupancy, and local licenses, as applicable). If your Hotel is new construction, we require that you commence construction (start pouring the foundation) within 12 months of the date your Franchise Agreement is signed, and we estimate the time from the date on which you sign your Franchise Agreement to the date you open your hotel as a GuestHouse Extended Stay Hotel to be 12 to 24 months (or 12 months from the time you commence construction). This estimate may vary depending on numerous factors, including location, construction schedules, and financing, as well as those factors identified above in connection with conversions.

Training

Initial Training

Franchisees are expected to be qualified to operate a GuestHouse Extended Stay Hotel or to retain a general manager sufficiently skilled and experienced to do so. We do not provide you with any initial training prior to opening your Hotel, other than a preliminary introduction to the Brand. However, we require you to complete designated training within three months of activation in our CRS, which primarily will consist of training to familiarize you with our Brand's culture and resources and our CRS, and to familiarize yourself with our expectations for the hospitality product and services to be delivered under our Brand. Training is available at no charge through the "Sonesta University" section of our "Access Point Owners' Portal," which includes training modules and courses designed to assist you in understanding Brand programs and best practices in the hospitality industry. Required online training typically takes less than one hour. If you prefer to have our trainers, known as "Sonesta University Ambassadors," provide more in-depth training at your location, you will pay us \$1,500 (plus travel costs and expenses) for a day and a half training to be scheduled at a mutually agreeable time following activation in our CRS. Training fees are subject to increase upon our prior notice to you.

Franchisees are invited to spend time with key operations personnel at one of our offices prior to, or shortly after, opening, for a fee of \$1,000 (other than travel, accommodations and incidentals). If any of the Brand introduction is held at your Hotel, you must provide accommodations for our personnel, at your cost.

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 the Hotel must be revenue management-centric; and he or she will be required to attend training and become certified in the use our designated revenue management system ("RMS"). The training classes are provided by a third party service provider, may be provided on-site at your Hotel or conducted electronically, in your discretion, and currently cost between \$2,750 and \$5,800 per Hotel (depending on whether training is done on-site or electronically). 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 \$1,600 to train new managers for Hotels already using the RMS).

Ongoing Training

Franchisees and employees of franchisees may access ongoing training in topics such as sales, operations, front desk, housekeeping, and other operations, which is offered online or through telephone conference and at no cost to you, either through Sonesta University or from other internal or independent subject matter experts.

If you would like additional in-person training (or we require additional in-person training in the future), you must travel to one of our offices for such training. You will pay us a training fee of \$1,000 for up to two days of training for you and your Hotel staff. You also must pay the travel, wages, living expenses and miscellaneous expenses of those who attend.

Our training is conducted under the supervision of Dominic Longo, Vice President, Training & Franchise Operations. Mr. Longo has 18 years of experience in hotel operations and management, has 12 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.

Sonesta University is not a university, college, or other educational institution; the term is used to refer to our proprietary training and educational opportunities and does not signify any third-party accreditation.

ITEM 12. TERRITORY

We grant franchisees a non-exclusive license to operate GuestHouse Extended Stay 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. The Franchise Agreement does not limit our right, or the right of any of our present or future owners, subsidiaries, and affiliated entities, to own, license or operate any other business of any nature ("Other Businesses"), including, but not limited to, a hotel, inn, conference center, resort, time share property, lodging facility or similar business, whether under the Network Marks, or as a competitive brand, or otherwise. We may engage in any Other Businesses, even if they directly compete with your Hotel, the Brand, or Network Hotels, whether we start those businesses, or purchase, merge with, acquire, are acquired by, or affiliate with, such business(es). We also may: (a) use or license to others all or part of the Brand Standards; (b) use the facilities, programs, services and personnel used in connection with the Brand in Other Businesses; and (c) use the Brand Standards and the Network Marks, in the Other Businesses. Under the terms of the Franchise Agreement, you are not acquiring any rights other than the non-exclusive right to use the Brand Standards in operating a GuestHouse Extended Stay Hotel at the site licensed under the Franchise Agreement. Under the terms of the Franchise Agreement, you waive and release any claims, demands or damages arising from or related to any of these activities, which will not give rise to any liability on our part, including liability for claims for unfair competition, breach of contract, breach of the implied covenant of good faith and fair dealing, or divided loyalty.

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

You may compete with any Network Hotels in and near your Hotel. There is no mechanism for resolving any conflicts that may arise between franchised or company-owned Network Hotels and franchised GuestHouse Extended Stay Hotels. Any resolution of conflicts regarding location, customers, support or services will be entirely within your and our business judgment.

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



We have and continue to use all channels of distribution, including internet, telemarketing or other direct marketing sales to make sales anywhere using any of the Network Marks or future marks we may acquire or create. We are not obligated to compensate you for sales to customers near your Hotel. 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. Franchisees of all Network Brands may solicit or accept customer reservations from anywhere. 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



Principal Service Marks

Under your Franchise Agreement, we grant you the non-exclusive right to operate your Hotel under the service marks displayed below. You may not use GuestHouse®, GuestHouse Extended StaySM or similar names in your corporate name, however, nor in any internet domain or social media site. These are the principal service marks used to identify your Hotel. We own the Proprietary Marks and all rights in and goodwill from the use of the Proprietary Marks accrue to us and our affiliates.

The following table summarizes the status of the service marks registered with the U.S. Patent and Trademark Office (“PTO”) on the Principal Register of the principal mark licensed to you under the Franchise Agreement. For the following registrations, we have filed all required affidavits and renewals.

SERVICE MARKS REGISTERED ON THE U.S. PATENT AND TRADEMARK OFFICE’S PRINCIPAL REGISTER		
SERVICE MARK	REGISTRATION NO.	REGISTRATION DATE
	5,127,900	January 24, 2017
	5,127,904	January 24, 2017
GUESTHOUSE	5,969,984	January 28, 2020
HELLO REWARDS	4,918,924	March 15, 2016

We have also filed applications to register the following service marks on the Principal Register of the PTO:

SERVICE MARK	APPLICATION NO.	FILING DATE
GH EXTENDED STAY	88/814,698	February 28, 2020
GH EXTENDED STAY	90/293,534	November 2, 2020
	88/814,701	February 28, 2020
	90/293,544	November 2, 2020
GH	88/814,704	February 28, 2020

We do not have a federal registration for our principal trademark. Therefore, our trademark does not have many legal benefits and rights as a federally registered trademark. If our right to use the trademark is challenged, you may have to change to an alternative trademark, which may increase your expenses.

“Proprietary Marks” means each of the trademarks and service marks listed in the table above, and all other trademarks, service marks, trade names, logos, and commercial symbols that we authorize for GuestHouse Extended Stay Hotels.

Currently Effective Trademark Determinations

There are no currently-effective material determinations of the U.S. Patent and Trademark Office, Trademark Trial and Appeal Board, the trademark administrator of any state or any court; pending infringement, opposition or cancellation proceedings; or pending material litigation involving the principal marks.

Agreements Significantly Limiting Your Rights to Use the Proprietary Marks

There are no agreements that significantly limit our right to use or license the use of our principal marks.

Protection of Your Right to Use the Trademarks

We will have the sole right and responsibility to handle disputes with third parties concerning use of the Proprietary Marks or the Brand Standards. The protection of the Proprietary Marks and their distinguishing characteristics is important to all of us. For this reason, you must immediately notify us of any infringement of or challenge to your use of any of the Proprietary 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 Proprietary Marks or the Brand Standards. 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. Under the terms of the Franchise

Agreement, you appoint us as your exclusive attorney-in-fact, to defend or settle all disputes of this type. You must sign any documents we believe are necessary to obtain protection for the Proprietary Marks and the Brand Standards 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 Brand Standards or the Proprietary Marks will be for our account.

We will defend any claims brought against you for your use of the Proprietary Marks so long as you use the Proprietary Marks in conformity with the grant given to you in the Franchise Agreement and in accordance with the Brand Standards.

Your Hotel will be known initially by the trade name set forth in the Rider (the "Trade Name"). We may change the Trade Name or any of the Proprietary Marks at any time. You may not change the Trade Name without our specific written consent.

Knowledge of Superior Rights or Infringing Uses

We have no actual knowledge of superior prior rights or infringing uses that could materially affect your use of the principal marks in any state.

ITEM 14. PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

Neither we nor any of our affiliates own any patents or pending patent applications that are material to the franchise.

The Brand Manual and our websites may be subject to state and federal copyright protection, although we have not filed federal copyright applications for these materials.

There are no determinations of the U.S. Copyright Office (Library of Congress) 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.

No agreements limit our right to use or license the use of our copyrighted materials. We are not obligated under any agreement to protect or defend our copyrights, although we intend to do so. We do not know of any infringing uses of or superior rights in our copyrighted materials.

You must maintain the confidentiality of the Brand Manual, as well as all knowledge, know-how, technologies, techniques and other proprietary information that we reveal to you as being confidential and treat this information as trade secrets. You must strictly limit access to the Confidential Information to your employees who have a "need to know" in order to perform their jobs. All persons to whom you grant access to the Brand Manual or any other Confidential Information must be required to comply with the confidentiality provisions of your Franchise Agreement.

"Proprietary Property" means the Proprietary Marks, Confidential Information, Brand Standards, and copyrighted (or copyrightable) or trade secret information of our affiliates or of us that you may use under the Franchise Agreement. "Confidential Information" means the Brand Standards, our Brand Manual, and any knowledge, know-how, technologies, processes, techniques, and any other information that we designate as confidential, proprietary, or trade secrets or that is not readily available in the public domain.

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

The owners of the franchise are not required to participate in the actual operation of the GuestHouse Extended Stay Hotel. If you are an individual, we do not make a recommendation that you personally participate. If you do not personally manage your Hotel, you must employ an on-premises general manager that is sufficiently skilled and experienced to operate your Hotel or a third-party management company (in either case, a “Third-Party Manager”). We may require our approval of your Third-Party Manager and, in some cases, require a Third-Party Manager as a condition of acceptance into the Brand. Under all circumstances, as the franchisee, whether you are an individual, corporation, limited liability company, partnership or other entity, you are at all times responsible for the management of your Hotel’s business.

We may require a Third-Party Manager to execute an individual undertaking, in a form approved by us, agreeing to protect our confidential information from unauthorized use, access or disclosure, and to use the confidential information only in the operation of the Hotel. If the Third-Party Manager is a management company, we may require it to sign a joinder to the Franchise Agreement agreeing to be bound by all the terms of the Franchise Agreement.

You may not enter into any lease, management agreement or other similar arrangement for the operation of your Hotel or any part of your Hotel with any person or entity without first obtaining our written consent, which consent will not be unreasonably withheld. We may decline to approve a Competitor (defined below), or any entity that is the exclusive manager for a Competitor through itself or an affiliate, to manage your Hotel. A “Competitor” means an entity that, 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, irrespective of the number of hotels comprising the competitive hotel brand.

Any Third-Party Manager must have the authority to perform all of your obligations under the Franchise Agreement, including all indemnity and insurance obligations. In the case of any conflict between the Franchise Agreement and the management agreement, the Franchise Agreement prevails.

We may require the general manager to attend certain training (See Item 11). We require the general manager to attend our Brand conference (see Item 11). A general manager may only manage one Hotel unless we approve otherwise in advance.

We do not require you or your manager to sign an agreement not to compete with us after termination of the Franchise Agreement. However, you may not engage, directly or indirectly, in any cross-marketing or cross-promotion of your Hotel with any other hotel, motel or related business without our prior written consent, except for Network Hotels. You may not copy or disclose any Confidential Information.

We normally do not require that your manager have an equity interest in your business. If, however, in our discretion it is in the best interests of the Brand that your manager has an equity interest in your business, we may condition your obtaining a license or continuing as a franchisee on your manager owning an equity interest in your business.

If you are a corporation, partnership, limited liability company, or other legal entity, any person with a 20% or greater legal or beneficial ownership interest (which may be persons who hold title in the ownership interests, or persons who do not hold title in the ownership interests but

enjoy equitable rights) in you must sign the Guaranty of Franchise Agreement attached as Exhibit C to this disclosure document guaranteeing the performance of all of your obligations under the Franchise Agreement.

ITEM 16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

We do not restrict the customers to whom you sell goods and services. You must operate your Hotel in conformity with the Brand Standards, including complying with the terms of all mandatory marketing, reservation, advertising, promotional, training and other operations programs we periodically may implement. You must use your Hotel’s premises solely for the operation of a GuestHouse Extended Stay-branded hotel. You may not provide any guest service or offer any product except as prescribed in the Brand Manual or otherwise in writing, and you must offer all Brand-wide products, services and programs we establish or that we determine to be in the best interests of the Brand, including any loyalty or similar program. Currently, you are required to participate in the Hello Rewards loyalty program. We have the right to change the types of products and services that we approve or authorize, so long as the products and services are compatible with the franchise system.

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.

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
a. Length of the franchise term	Section 13 and Rider	Term is 20 years.
b. Renewal or extension of the term	Not applicable	The Franchise Agreement is non-renewable.
c. Requirements for franchisee to renew or extend	Not applicable	The Franchise Agreement is non-renewable.
d. Termination by franchisee	Sections 12.b and 14.c	You may terminate without paying a Termination Fee in the event you experience a casualty loss or fire and you elect not to repair or rebuild the Hotel. If you terminate the Franchise Agreement without cause, you must pay us a Termination Fee (liquidated damages).

THE FRANCHISE RELATIONSHIP

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
e. Termination by Franchisor without cause	Section 12	<p>Condemnation. If your Hotel is condemned, you must give us notice at the earliest possible time. We may agree to transfer the Franchise Agreement to a nearby location you select within four months of your notice of condemnation. But if a new hotel does not become the Hotel under the Franchise Agreement within one year of the closing of the Hotel, we can terminate the Franchise Agreement immediately upon notice to you, in which case you must pay us a Termination Fee. See Item 6.</p> <p>Casualty. If your Hotel closes due to fire or other casualty, you must immediately notify us, repair or rebuild the Hotel according to the Brand Standards, commence reconstruction within six months after closing, and reopen the Hotel for continuous business operations as soon as practicable (but in any case within eighteen months after closing). If you or SRLHF choose not to reopen the Hotel, either party can terminate the Franchise Agreement upon notice to the other. You need not pay a termination fee unless you operate or own a controlling interest in another hotel on the site before the normal expiration of your Franchise Agreement, in which case you must pay us a Termination Fee. See Item 6.</p>
f. Termination by Franchisor with cause	Section 14	We can terminate your Franchise Agreement if you default.
g. "Cause" defined-curable defaults	Section 14.a., Attachments A-1 and A-2	Except as described below (a) before the Hotel opens, you have 10 days to cure any event of default, and (b) after the Hotel opens, you have 30 days to cure any event of default. Events of default include failure to satisfy or comply with any of the requirements, conditions, or terms in the Franchise Agreement, the Brand Manual, Attachments A-1 and A-2, any other attachment, any operational requirements or any other agreement between us (or an affiliated entity) and you relating to the Hotel.
h. "Cause" defined-non-curable defaults	Section 14.b.	<p>After curing a material violation, you engage in same noncompliance within any consecutive 24 month period, whether or not you correct noncompliance after notice; or you engage in a pattern of non-compliance, regardless of materiality, whether or not you correct noncompliance after notice.</p> <p>You (or guarantor) fail to pay debts as they become due.</p> <p>You (or guarantor) file bankruptcy, become insolvent, are placed in receivership, etc.</p> <p>You (or guarantor) lose possession or the right to possess all or a significant part of the Hotel or Hotel site.</p> <p>You (or guarantor) fail to continue to identify the Hotel to the public as a GuestHouse Extended Stay Hotel, or you abandon the operation of the Hotel by failing to operate the Hotel for 5 consecutive days, or any shorter period after which it is not unreasonable for us to conclude that you do not intend to continue to operate the Hotel, unless failure to operate is due to causes beyond your control, and you have taken reasonable steps to minimize the impact.</p>

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
		<p>You (or guarantor) contest in any court or proceeding our ownership of the Brand or any part of the Brand, or the validity of any service marks or trademarks associated with our business.</p> <p>Any action is taken toward dissolving or liquidating the franchisee or any guarantor, if a corporation or partnership, except for death of a partner.</p> <p>Any of the owners of an Equity Interest (as defined in the Franchise Agreement) in you is, or is discovered to have been, convicted of a felony that was not disclosed in your application (or any other offense or conduct likely to adversely reflect upon or affect the Hotel, the Brand, us or our affiliated entities in any way).</p> <p>You (or guarantor) conceal revenues, maintain false books and records of accounts, submit false reports or information to us or otherwise defraud us.</p> <p>You (or guarantor) become a Competitor (defined in Item 15).</p> <p>You transfer any interest in the Franchise Agreement or in your Hotel other than in approved transaction (unless the transfer is of a type where approval is not required).</p> <p>You (or guarantor) do not purchase or maintain any required insurance, or do not reimburse us if we purchase insurance for you.</p> <p>Information involving you or your affiliates discloses facts which in our opinion might adversely affect any gaming licenses or permits held by us or our current stature with any gaming commission, board, or similar governmental or regulatory agency, or our reputation or business.</p> <p>We make a reasonable determination that your continued operation of the Hotel will result in an imminent danger to public health or safety.</p> <p>Any guarantor relating to the Agreement breaches its guaranty</p>

THE FRANCHISE RELATIONSHIP

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
i. Franchisee's obligations on termination/non-renewal	Sections 14.c. and 14.d; Attachments A-1 and A-2	<p>a. Immediately discontinue holding yourself out to public as a GuestHouse Extended Stay Hotel, not identify the Hotel as a former GuestHouse Extended Stay Hotel or yourself as our former franchisee, take the action required to cancel or assign all fictitious or assumed name registrations relating to the Proprietary Marks, and take whatever action is necessary to assure that no use is made of any part of the Brand (including the Proprietary Marks, all forms of advertising and other indicia of operation as a GuestHouse Extended Stay Hotel), and discontinue use of all distinguishing indicia of the Brand and our affiliates' hotels.</p> <p>b. Immediately cease using or operating any Online Presence related to the Hotel or the Network Marks, and take any action as may be required to disable such Online Presence, or transfer exclusive control and access of such Online Presence to us, as we determine.</p> <p>c. Return to us, or at our direction destroy, the Brand Manual and all other proprietary materials.</p> <p>d. Remove all distinctive Brand features of the Hotel, including the primary freestanding sign down to the structural steel.</p> <p>e. Take all other actions required to preclude any possibility of confusion on the part of the public that the Hotel is still using all or any part of the Brand or is otherwise holding itself out to the public as a GuestHouse Extended Stay Hotel.</p> <p>f. Comply with other Brand Standards periodically established in connection with de-identification of the Hotel, including as relates to disposing of personal information.</p> <p>g. Pay us any required termination fees, liquidated damages or fees for failure to de-identify the Hotel – see Item 6 for termination fees, liquidated damages, fees for failure to de-identify and circumstances when you must pay them.</p>
j. Assignment of contract by Franchisor	Section 11.a	There are no restrictions on SRLHF's right to assign or transfer, except that the assignee must assume the obligations.
k. "Transfer" by franchisee-defined	Section 11.b	Any sale, lease, assignment, or transfer of any direct or indirect interest in the hotel, the Franchise Agreement, or any direct or indirect Equity Interest (as defined in the Franchise Agreement) in you (except for commercial space in your Hotel customarily subject to lease, sublease or concession arrangements, which requires our prior written approval).
l. Franchisor's approval of transfer by franchisee	Section 11.b	You may not make any transfers without our prior written consent, except that you do not need our consent (i) to pledge or mortgage the Hotel assets or an Equity Interest to a third-party bank or other commercial lending institution that is not a Competitor if you do not pledge or mortgage your interest in the Franchise Agreement, or (ii) to transfer Equity Interests where there is no change of control and, in the case of equity Interests that are not publicly traded, all transfers from the date of your agreement total less than 20% of all Equity Interests.

THE FRANCHISE RELATIONSHIP

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
m. Conditions for Franchisor approval of transfer	Section 11.b	<p>Change of Ownership. Any proposed transfer that requires our approval and that does not qualify as a Permitted Transfer (see below) will be considered a Change of Ownership. If there is a proposed Change of Ownership and proposed owner desires to continue to operate the Hotel in accordance with the Brand Standards, proposed owner must submit an application for a new franchise agreement and pay the then current Initial Fee, an onboarding administration fee, and any other then applicable fees and charges for new franchises. The proposed owner may also be required to comply with a PIP in the event we determine there are renovation requirements for the Hotel. We may require certain conditions to obtain our consent, which include: curing any existing defaults; receipt of evidence from the transferee that insurance coverage meets the minimum amounts we require; all outstanding fees have been paid; compliance with the Franchise Agreement and Brand Standards; an executed voluntary termination agreement, estoppel and general release; copies of transfer documents; evidence of adequate assurances of transferee; an executed franchise agreement with us and executed guaranty; completed training by transferee and its management, if applicable; landlord approval of sublease or transfer of lease; and if you agree to finance any part of the purchase price, you subordinate transferee’s obligations to you to transferee’s obligations to us, our affiliates and third-party vendors.</p> <p>Permitted Transfers. Include “Affiliate Transfers,” “Family Transfers”; and “Brick and Mortar Transfers” (where you retain possession and control of the hotel site and the management control of the hotel operations after the sale or lease). See definitions in Franchise Agreement. You must submit Permitted Transfer Consent Request with all required information, non-refundable processing fee of \$20,000 (plus additional processing fee of \$2,500 if transfer requires securities registration) See Franchise Agreement for further details regarding the different types of Permitted Transfers.</p> <p>Public Offering. Our prior approval of documentation and payment of \$2,500 processing fee and our other costs required. See Franchise Agreement for further details.</p>
n. Franchisor’s right of first refusal to acquire franchisee’s business	None	Not Applicable
o. Franchisor’s option to purchase franchisee’s business	None	Not Applicable

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
p. Death or disability of franchisee	Section 11.b.(3)(a)(iii)	Upon death of a franchisee who is a natural person or of an Equity Owner, the Franchise Agreement or the Equity Interest (as applicable) may pass in accordance with the person's will, or, if the person dies in testate, in accordance with laws of intestacy governing the distribution of the person's estate, without our consent; so long as the transfer is to a Family Member (as defined in Franchise Agreement) or to a legal entity formed by Family Member(s), and within one year after the death, the Family Member(s) or entity meets all our normal requirements of an approved applicant.
q. Non-competition covenants during the term of the franchise	Section 6.a.(24)	No competition anywhere without our approval.
r. Non-competition covenants after the franchise is terminated or expires	None	Not Applicable
s. Modification of the agreement	Section 17.c	No oral modifications, but we can change the Brand Manual and other materials.
t. Integration/merger clause	Section 17.c	Only the terms of the Franchise Agreement (together with its schedules and exhibits) 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	Not Applicable	Not Applicable.
v. Choice of forum	Section 15.a	Litigation must be brought in the federal court nearest to our or, as applicable, our successor's or assign's then current principal place of business (currently, Newton, Massachusetts), subject to applicable state law. If the federal court lacks jurisdiction, then such litigation must be brought in the state court nearest to our or, as applicable, our successor's or assign's then current principal place of business (currently, Newton, Massachusetts), unless otherwise mutually agreed by the Parties. However, we may seek injunctive relief in any jurisdiction that has jurisdiction over you.
w. Choice of law	Section 15.a	Massachusetts law generally applies, except for issues under the U.S. Trademark Act (subject to applicable state law).

Applicable state law might require additional disclosures related to the information contained in this Item 17. These additional disclosures, if any, appear in Exhibit L.

ITEM 18. PUBLIC FIGURES

We currently do not use any public figure to promote our franchise system, but we may do so in the future.

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 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 this Item 19 may be given only if: (a) a franchisor provides the actual records of an existing outlet you are considering buying; or (b) 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 hotels. 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 GuestHouse Extended Stay Hotel, however, we may provide you with the actual records of that property. If you receive any other financial performance information or projections of your future income, you should report it to our 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 2019 to 2021^{1, 2}**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2019	26	19	-7
	2020	19	16	-3
	2021	16	14	-2
Company-Owned	2019	0	0	0
	2020	0	0	0
	2021	0	0	0
Total Outlets	2019	26	19	-7
	2020	19	16	-3
	2021	16	14	-2

¹ The numbers are as of December 31 of each year.

² As we have only offered franchises for GuestHouse Extended Stay-branded hotels since March 2020, each of the referenced hotels for 2019 are GuestHouse®-branded hotels.

TABLE NO. 2
TRANSFER OF OUTLETS FROM FRANCHISEES TO NEW OWNERS (OTHER THAN THE
FRANCHISOR)
FOR THE YEARS 2019 to 2021^{1,2}

State	Year	Number of Transfers
MO	2019	0
	2020	1
	2021	0
OR	2019	0
	2020	1
	2021	0
TX	2019	0
	2020	0
	2021	0
WA	2019	0
	2020	0
	2021	1
Total Outlets	2019	0
	2020	2
	2021	1

¹ The numbers are as of December 31 of each year.

² As we have only offered franchises for GuestHouse Extended Stay-branded hotels since March 2020, each of the referenced hotels are GuestHouse®-branded hotels.

TABLE NO. 3
STATUS OF FRANCHISED OUTLETS
FOR YEARS 2019 to 2021^{1,2}

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
AL	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
AK	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
AR	2019	1	0	0	1	0	0	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
CA	2019	2	0	0	1	0	0	1
	2020	1	0	1	0	0	0	0
	2021	0	0	0	0	0	0	0
KY	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1

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
MN	2019	2	0	0	1	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
MO	2019	2	0	0	1	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
OR	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	1	0	0	1
TN	2019	3	0	2	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
TX	2019	1	0	0	0	0	0	1
	2020	1	0	1	0	0	0	0
	2021	0	0	0	0	0	0	0
WA	2019	9	0	2	0	0	0	7
	2020	7	0	1	0	0	0	6
	2021	6	0	0	0	0	0	6
WY	2019	0	1	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	1	0	0	0	0
Total	2019	26	1	4	4	0	0	19
	2020	19	0	3	0	0	0	16
	2021	16	0	1	1	0	0	14

¹ The numbers are as of December 31 of each year.

² As we have only offered franchises for GuestHouse Extended Stay-branded hotels since March 2020, each of the referenced hotels are GuestHouse®-branded hotels.

**TABLE NO. 4
STATUS OF COMPANY-OWNED OUTLETS
FOR YEARS 2018 to 2020¹**

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
All States	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0
Total	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0

¹ The numbers are as of December 31 of each year.

**TABLE NO. 5
PROJECTED OPENINGS AS OF DECEMBER 31, 2021 FOR 2022**

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
AL	0	1	0
GA	0	1	0
NC	0	1	0
TX	0	1	0
WA	0	1	0
Total	0	5	0

A list of the names, addresses and telephone numbers of all current Franchisees as of December 31, 2021, is attached as Exhibit I to this disclosure document.

A list of the names, city, state and telephone number of franchisees who have 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 have not communicated with us within 10 weeks of the issuance date of this disclosure document is attached as Exhibit J to this disclosure document. If you buy this franchise, your contact information may be disclosed to buyers when you leave the franchise system.

Confidentiality Clauses

In the last three fiscal years, no franchisees of the Brand have entered into any confidentiality agreements that restrict their ability to speak openly about their experience with our franchise system. We have entered into confidential settlement agreements within the last three years prohibiting former franchisees from discussing the settlement negotiations – but not prohibiting from speaking about their experience in general with the franchise system.

Trademark-Specific Franchisee Organizations

We have established brand advisory boards for hotels licensed under certain of our brands comprised of representatives (owners and general managers) of franchised hotels (and, in some cases franchised and owned hotels) located in the United States and Canada. The purpose of the brand advisory boards is to consider, discuss and advise SRLHF on, among other things, the implementation of actions, initiatives, programs and standards relating to hotels licensed under the respective brands. We may expand one of the existing brand advisory boards to include representatives from other Network Brands, including the Brand, or we may create one or more separate advisory boards for participants in other Network Brands, including the Brand.

There are no other trademark-specific franchisee organizations affiliated with the Brand.

ITEM 21. FINANCIAL STATEMENTS

Attached as Exhibit G to this disclosure document are the audited consolidated financial statements of our parent, RLHC and its subsidiaries, consisting of the consolidated balance sheets of RLHC as of December 31, 2021, December 31, 2020, and December 31, 2019, and the

related consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021.

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 H to this disclosure document.

ITEM 22. CONTRACTS

The following contracts are exhibits to this disclosure document:

Exhibit B	Franchise Agreement
Exhibit C	Guaranty of Franchise Agreement and Promissory Notes
Exhibit D-1	Initial Fee Promissory Note
Exhibit D-2	Incentive Promissory Note
Exhibit F	Representations and Acknowledgment Statement
Exhibit K	Sample General Release
Exhibit L	Consent to Transfer
Exhibit M	State Addenda and Agreement Riders

ITEM 23. RECEIPTS

Exhibit N 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:
1 (866) 275-2677

Los Angeles

Suite 750
320 West 4th Street, Suite 750
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) 972-8565

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 62701
(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, 21st 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 69-2
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
FRANCHISE AGREEMENT

FRANCHISE AGREEMENT

This Franchise Agreement (the “Agreement”) is between Sonesta RL Hotels Franchising Inc. (“we,” “us,” “our” or “Franchisor”), and the “franchisee” entity (“you,” “your” or “Franchisee”), the name and address of which is set forth on the Rider, effective as of the date set forth below our signature on the Rider attached hereto as Attachment B (the “Rider”).

INTRODUCTION

You have expressed an interest in operating the property identified on the Rider under the Proprietary Marks (as defined herein). You have confirmed to us that you (i) independently investigated the risks of operating a hotel under the Proprietary Marks, including current and potential market conditions, and competitive factors and risks, and have made an independent evaluation of all such matters, and (ii) reviewed our franchise disclosure document (“FDD”). After doing so, you have expressed a desire to enter into a Franchise Agreement with us to obtain a license to use the Proprietary Marks in the operation of a hotel at the address set forth on the Rider.

NOW, THEREFORE, in consideration of the premises and the undertakings and commitments of each party to the other party as set forth in this Agreement, the parties agree as follows:

1. Definitions.

The following capitalized terms have the meanings set forth after each term:

- a. **“Brand”** means the elements we designate from time to time to identify hotels operating under the Proprietary Marks that provide to the consuming public a similar, distinctive, high quality hotel service. The “Brand” includes: the Proprietary Marks; 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 Hotel; programs for our inspecting the Hotel and consulting with you; and other elements we refer to in this Agreement, the Brand Manual, or in other communications to you. We may add elements to the Brand or modify, alter or delete elements of the Brand at our sole discretion.
- b. **“Brand Hotels”** means hotels we license to operate under the Brand and to use the Proprietary Marks.
- c. **“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 this Agreement. Employee wages, hours and working conditions are your sole responsibility. We may change the Brand Manual periodically. We will notify you at least 30 days before any change becomes effective. For purposes of this Section 1.c, email notification will suffice. You will be responsible for the costs of complying with the Brand Manual including any changes.
- d. **“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 the Hotel. Brand Standards may be included in the Brand Manual or otherwise distributed by us in writing; for purposes of this Section 1.d, an email to you qualifies as a writing.
- e. **“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, net of chargebacks from credit card issuers. Excluded from Gross Rooms Revenue are separate charges to guests for food and beverage (including room service); vending machine receipts; actual telephone charges for calls made from a guest room; key forfeitures and

entertainment (including Internet fees and commissions); allowances for any Guest Room rebates and overcharges; gratuities to employees or service charges levied in lieu of such gratuities, which are payable to employees; and federal, state and local sales, occupancy and use taxes collected from guests.

- f. **“Guest Rooms”** means transient hotel rooms located at the Hotel, and is not dependent upon occupancy of the hotel rooms.
- g. **“Hotel”** means the property you will operate under this Agreement. The “Hotel” includes all structures, facilities, appurtenances, furniture, fixtures, equipment, and entry, exit, parking and other areas located on the site we have approved for your business, or located on any land we approve in the future for additions, signs, parking or other facilities.
- h. **“Including”** means “including, by way of example, but without limitation.”
- i. **“License Term”** means the period from the Opening Date through the expiration of the License Term, as indicated in the Rider.
- j. **“Network”** means the hotels we or our affiliates own, operate and license under the Proprietary Marks and any other Network Mark. All such hotels, regardless of the brand, are collectively referred to as the Network.
- k. **“Network Hotels”** means hotels we or our affiliates license to operate under the Network Marks.
- l. **“Network Marks”** means (1) the Proprietary Marks, (2) the Hotel RL[®] and RLSM service marks and trade names, (3) the Red Lion[®], Red Lion Hotel[®], Red Lion Inn & Suites[®] service marks and trade names, (4) the Sonesta[®] Hotels & Resorts service mark and trade name, (5) the Sonesta ES Suites[®] service mark and trade name; (6) the Sonesta[®] Simply Suites service mark and trade name; (7) the Sonesta[®] Select service mark and trade name; (8) the Americas Best Value Inn[®] service mark and trade name, (9) the SignatureSM and Signature InnSM service marks and trade names, (10) the Country Hearth Inn[®], Country Hearth Suites[®] and Country Hearth Inn & Suites[®] service marks and trade names, (11) the Knights Inn[®] service mark and trade name, (12) the Canadas Best Value InnSM service mark and trade name, (13) the Lexington[®] service mark and trade name, (11) the Jameson Inn[®] service mark and trade name, (14) the 3 Palms Hotels & Resorts[®] service mark and trade name, (15) the America’s Best Inn[®] service mark and trade name, and (16) any other service marks, trademarks, trade names and logos for any additional brands we or our affiliates create or acquire from time to time.
- m. **“Opening Date”** means the date on which we authorize you to make available the facilities, Guest Rooms, or services of the Hotel to the general public under the Proprietary Marks. If you are acquiring an existing Brand Hotel, the Opening Date will be the date you close on the acquisition of the existing Brand Hotel.
- n. **“Proprietary Marks”** means the service marks and trade names GuestHouse Extended StaySM and GuestHouseSM together with all related logos, trade dress, and any other additional or substituted trademarks, trade names, service marks or logos (whether registered or not) currently owned, licensed or used by us or that we later adopt, purchase or develop.

2. Grant of License.

We hereby grant to you and you hereby accept a non-exclusive, limited, revocable license (the **“License”**) to use (without the right to sublicense) the Proprietary Marks and the Brand at and in connection with the operation of the Hotel, in accordance with the terms of this Agreement. You acknowledge and agree that the License does not extend to any bar, restaurant or other facility located on the premises of the Hotel, unless separately approved by us in writing.

This Agreement does not limit our right, or the right of any of our present or future owners (direct and indirect), subsidiaries, and affiliated entities (the **“Entities”**), to own, license or operate any other business of any nature (**“Other Businesses”**), including a hotel, inn, conference center, resort, time share property, lodging facility or similar business, whether under the Proprietary Marks, any of the other Network Marks or as a competitive brand. We reserve the right, and you specifically acknowledge and agree that we are permitted, to engage in any Other Businesses, even if they compete with the Hotel, the Brand or the Network, whether we start those businesses, or purchase, merge with, acquire, are acquired by, or

affiliated with, such business(es). Our rights under the preceding sentence include, for example, our right to own, operate, or license a hotel under any brand, including any of the Network Marks, in the immediate vicinity of the Hotel. We also may: (a) use or license to others all or part of the Brand; (b) use the facilities, programs, services or personnel used in connection with the Brand in Other Businesses; and (c) use the Brand, the Proprietary Marks and the Network Marks, in the Other Businesses. You acknowledge and agree that you are not acquiring any rights other than the non-exclusive right to use the Brand to operate a Hotel under the Proprietary Marks at the site licensed under this Agreement and in accordance with the terms of this Agreement. You waive and release any claims, demands or damages arising from or related to any of the foregoing activities, and you acknowledge and agree that such activities will not give rise to any liability on our part, including but not limited to liability for claims for unfair competition, breach of contract, breach of the implied covenant of good faith and fair dealing, or divided loyalty.

The Hotel will be known initially by the trade name set forth in the Rider (the “**Trade Name**”). We may change the Trade Name or any of the Proprietary Marks at any time at our sole discretion. You may not change the Trade Name without our specific written consent. You acknowledge and agree that you are not acquiring 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 the Entities that we do not specifically designate to be used in the Brand.

3. Our Responsibilities.

a. Training and Brand Conference.

(1) During the License Term, we will specify required and optional training programs and provide these programs at various locations to protect the Network Marks and Brand and to ensure consistency within the Brand. Within three months of the Opening Date you must complete the online training designed to assist you in understanding Brand programs. We may charge you for (i) required training services and materials and (ii) optional training services and materials we provide to you. You also are responsible for all travel, lodging and other expenses you and your employees incur in attending these programs.

(2) We will convene a brand conference (“**Brand Conference**”) no less frequently than every 18 months, at which Brand franchisees will gather to network and participate in educational seminars. You (or one of your owners or general managers), your director of sales, and all your sales and catering associates must attend. If you have paid all of your Brand Conference fees in accordance with this Agreement, one of your representatives may attend the Brand Conference for no additional registration fee. You must pay our then current Brand Conference fee for each additional attendee. You will be solely responsible for your attendees’ wages and expenses of travel, lodging, certain meals, and other out-of-pocket costs.

b. Consultation. From time to time at our sole discretion, we may make available to you consultation and advice in areas such as operations, facilities, and marketing. We have the right to establish fees in advance for our consultation and advice on a project-by-project basis. If we make these services available, they will not be mandatory.

c. Marketing. Periodically, we may include your Hotel, or cause your Hotel to be included in (i) national or regional group advertising of some or all GuestHouse Extended Stay-branded hotels, and (ii) international, national and regional market programs offered by us subject to and in accordance with our general practice for GuestHouse Extended Stay-branded hotels. We may modify references to the address of your Hotel to help optimize marketing programs and opportunities; provided, however, if there is a significant change in a reference to your Hotel’s address, we will confer with you, but we will have sole discretion in how your Hotel’s address is referenced.

We may pay for various expenses and programs that, in our view, benefit, in the short-term or the long-term, the Network Hotels, but we are not obligated to do so. We may enter into arrangements for development, marketing, operations, administrative, technical and support functions, facilities, programs, services or personnel with any other entity, including our affiliates. Any expenditures are intended for the benefit of the Network Hotels.

d. Inspections/Compliance Assistance. We may administer a quality assurance program for the Brand which may include conducting periodic inspections of the Hotel and guest satisfaction surveys and audits to ensure your compliance with Brand Standards. We have the right to inspect the Hotel and its

operations at any time, with or without prior notice to you, and to determine if the Hotel is in compliance with the Brand Standards and rules of operation set forth in this Agreement. You acknowledge that your obligation to comply with the Brand Standards is unconditional, and you therefore agree that you will not assert, as a defense to your obligation to comply with the Brand Standards, that any other Brand Hotel has failed to comply with the Brand Standards. We retain the right to enforce, at our sole discretion, the Brand Standards as we deem necessary or appropriate in furtherance of our interests in the Brand and Network or the interests of the Brand Hotels or Network Hotels. You acknowledge and agree that, in exercising our discretion with respect to any other Brand Hotel, we may, for example, consider (but are not required to consider) the particular circumstances of the Brand Hotel, its configuration, its market, and the importance of the market to the Brand or the Network.

e. **Brand Manual.** We will loan the Brand Manual to you, and any revisions and updates we may make to the Brand Manual. You will not disclose this Agreement or the Brand Manual to anyone except your authorized employees (or the employees of your management company, if authorized by us in writing). You acknowledge that any unauthorized use or disclosure of the Brand Manual would be an unfair method of competition and a breach of trust and confidence and will result in irreparable harm to our affiliates and us. You are responsible to us for any breach of this provision by you or your management company or your or your management company's employees or agents.

f. **Approved Products, Services, and Suppliers.** We and our affiliates reserve the right to periodically designate and approve standards and specifications of the furniture, fixtures, and equipment 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 Brand Fees 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 Proprietary 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.

g. Third-Party Distribution Program.

(1) We have entered into agreements with many leading intermediaries for various distribution channels, pursuant to which such distribution channels and online travel agencies (“OTAs”) 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 negotiated, including pricing terms. 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 CRO (call center) and central reservation system (“CRS”), in connection with stays booked at your Hotel through their websites. Those fees are subject to change by the applicable third-parties. We may modify or cease providing the Third-Party Distribution Program at any time.

(2) You must connect to all third-parties through our CRS, unless such third-party does not directly or indirectly offer interfaces to the CRS. You may not bypass our CRS by connecting such third-party distribution channel to your property management system (“PMS”). You must maintain rates and inventory in the CRS 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 \$250. For repeated occurrences requiring additional notice to you, we may charge you additional fees.

h. 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, franchised Brand Hotels participate in our loyalty program referred to as Hello Rewards. 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 to reasonably undertake such programs on behalf of your Hotel.

i. Help Desk. We will provide you with access to our IT help desk, which supports the owner’s portal, provides email troubleshooting and supports the Brand authorized PMS. We periodically may modify the services provided by the help desk. Requests for extraordinary support may incur a fee, the amount of which will be determined and agreed by you and us prior to initiation of such support.

j. Delegation of Performance. You acknowledge and 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 the Entities, our agents or independent contractors with whom we have contracted to perform these obligations.

4. Proprietary Rights.

You acknowledge, and will not contest, either directly or indirectly, prior to or during the License Term or after termination or expiration of this Agreement: (i) our (or any Entities’) ownership of, rights to and interest in the Brand, the Proprietary Marks and any of their element(s) or component(s), including present and future distinguishing characteristics; (ii) our sole right to grant licenses to use all or any element(s) or component(s) of the Brand; (iii) that we (or the Entities) are the owner of (or the licensee of, with the right to sub-license) all right, title and interest in and to the Proprietary Marks used in any form and in any design, alone or in any combination, together with the goodwill they symbolize; and (iv) the validity or ownership of the Proprietary Marks. You acknowledge that the Proprietary Marks have acquired a secondary meaning which indicates that the Hotel and Brand are operated by or with our approval in

connection with the Network. All improvements and additions to, or associated with, the Brand, the Proprietary Marks, and all goodwill arising from your use of the Brand and the Proprietary Marks, will inure to our benefit and become our property (or the Entities), even if you develop them. You may not prepare any adaptation, translation, transliteration, or work derived from the Brand, the Proprietary Marks, or other proprietary rights without our consent. If we approve such adaptation, translation, transliteration, or work, you agree that the derivative work will be our property, and you assign all of your right, title, and interest in it to us. At our request, you will promptly assign to us any rights or registrations to the Proprietary Marks that you may obtain. You acknowledge that you are not entitled to receive any payment or other value from us or any of the Entities for any goodwill associated with your use of the Brand or the Proprietary Marks, or any element(s) or component(s) of the Brand.

5. Proprietary Marks.

a. **Use of Trade Name.** You will operate under, and prominently display at the Hotel in accordance with the Brand Standards, the Proprietary Marks. You will not adopt any other names in operating the Hotel that we do not approve. You also will not use any of the other Brand or Network Marks, trade names or service marks, or any similar word(s) or acronyms, in (i) your corporate, partnership, business or trade name except as we provide in this Agreement or the Brand Manual, or (ii) any domain name, website, email address, social media account, user name, other online presence or presence on any electronic medium of any kind ("**Online Presence**"), except as we provide in this Agreement, in the Brand Manual or otherwise in writing from time to time, or (iii) any business operated separate from the Hotel, including the name or identity of developments adjacent to or associated with the Hotel. You agree that any unauthorized use of any of the Network Marks will be an infringement of our rights and a material breach of this Agreement.

b. **Trademark Disputes.** We and you each agree that the protection of the Network Marks and their distinguishing characteristics that stand for the Brand and Network is important to all of us. Accordingly, you will immediately notify us of any infringement or dilution of or challenge to your use of the Proprietary Marks and will not, absent a court order or our prior written consent, communicate with any other person regarding any such infringement, dilution, challenge or claim. We will take the action we deem appropriate with respect to such challenges and claims and have the sole right to handle disputes concerning use of all or any part of the Proprietary Marks or the Brand. You will extend to us at your expense your full cooperation in these matters. You appoint us as your exclusive attorney-in-fact, to prosecute, defend and settle all disputes of this type at our sole discretion. You will sign any documents we believe are necessary to prosecute, defend or settle any dispute or obtain protection for the Proprietary Marks and the Brand 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 regarding use of all or part of the Brand or the Proprietary Marks will be for our account.

c. **Online Presences.** You may not register, own, maintain or use any Online Presences relating to the Network, Brand or the Hotel 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 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 Network 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 our Network Marks.

Your use of all Online Presences shall be subject to the Brand Standards. 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, use of the Proprietary 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 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, as they may change from time to time.

We will own the rights to each Online Presence. At our request, 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 our Network Marks, Brand, or Network, 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. Notwithstanding the foregoing, you agree that all liabilities and obligations arising from any such Online Presence prior to the date of the transfer or assignment to us will remain your sole responsibility in all respects, and any costs we incur in connection therewith will be indemnifiable under Section 9 of this Agreement. 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. You also will delete all references to our Network Marks, Brand, or Network from any other Online Presence you own, maintain or operate beyond the expiration or termination of this Agreement.

d. **Covenant.** You agree, as a direct covenant with us and our Entities, that you will comply with all of the provisions of this Agreement related to the manner, terms and conditions of the use of the Proprietary Marks, and the termination of any right on your part to use the Proprietary Marks. You agree that any non-compliance by you with this covenant, the terms of this Agreement, or any unauthorized or improper use of the Brand or the Proprietary Marks will cause irreparable damage to us and to the Entities. You therefore agree that if you engage in this non-compliance, or unauthorized or improper use of the Brand or the Proprietary Marks during or after the License Term, we and the Entities will be entitled to both temporary and permanent injunctive relief against you from any court of competent jurisdiction, in addition to all other remedies that we and the Entities may have at law. You consent to the entry of such temporary and permanent injunctions. You will be responsible for payment of all costs and expenses, including, reasonable attorneys' fees, which we and the Entities may incur in connection with your non-compliance with this covenant.

6. Your Responsibilities.

a. **Operational and Other Requirements.** During the License Term, you agree to:

(1) promptly pay to us, or reimburse us, for all Brand Fees (as defined in Section 7.c below), and all other fees (as set forth in Section 7 below) for goods and services purchased by you or your agents;

(2) operate the Hotel 24 hours a day every day, except as we may otherwise permit based on special circumstances;

(3) operate, furnish, maintain and equip the Hotel in a clean, safe and orderly manner in accordance with the provisions of this Agreement and the Brand Standards, and in compliance with all applicable local, state, and federal laws, customs, regulations, rules, bylaws, and other ordinances, including without limitation, privacy laws and disability rights laws, and including maintaining and conducting your business in accordance with sound business and financial practices. Unless any order issued by any federal, state or local authority requires closure of the Hotel, you will not close the Hotel unless you obtain our prior written consent;

(4) provide efficient, courteous and high quality service to the public;

(5) adopt, use and comply with the Brand Standards, whether set forth in the Brand Manual or otherwise in writing, and keep your copy of the Brand Manual current at all times;

(6) comply with Brand Standards as to the types and levels of services, amenities and products that either must or may be used, promoted or offered at or in connection with the Hotel;

(7) install, display, and maintain signage displaying or containing the Proprietary Marks and other distinguishing characteristics in accordance with plans, specifications and Brand Standards we establish for Brand Hotels;

(8) comply with Brand requirements for the training of persons involved in the operation of the Hotel, including completion by the general manager and other key personnel of the Hotel of a Brand orientation program. You will pay us for all fees and charges, if any, we require for your personnel to attend these training program(s) on the same basis as we charge other Brand Hotels. You will also be responsible for the wages, room, board and travel expenses of your personnel;

(9) purchase, maintain and upgrade property management, revenue management, in-room entertainment, telecommunications and other computer and technology systems we periodically designate as Brand-wide or Network-wide programs based on our assessment of the long-term best interests of hotels using the Brand and Network and the interest of the Brand or Network as a whole, and ensure your PMS and merchant processor are tokenized and have point-to-point encryption activated. You will not maintain more than one property management or revenue management system in connection with the operation of the Hotel and all OTAs and other distribution channels must be connected to our CRS, or, if no connectivity is available for a particular distribution channel, through your authorized PMS unless directed or approved by us in advance in writing;

(10) 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;

(11) process all reservations and report all revenue through the property management and revenue management system;

(12) advertise and promote the Hotel and related facilities and services on a local and regional basis in a dignified manner, in accordance with the provisions of this Agreement and the Brand Standards, using our identity and graphics standards for all Brand Hotels, at your cost and expense. You agree to establish any Online Presence we periodically require, and may establish any other Online Presence we periodically authorize. You agree to adhere to the approved standards established by us for all advertising and promotional materials (including any materials in digital, electronic or computerized form, or in any form of media that exists now or is developed in the future) that you produce or distribute. You will not begin using the materials that do not meet our established standards without first receiving our written approval. You also agree to immediately discontinue your use of any advertising or promotional materials or Online Presence we reasonably believe is not in the best interest of the Hotel or Brand or Network, even if we previously approved the materials or use of such Online Presence;

(13) participate in, and pay all charges in connection with (i) all required Brand guest complaint resolution programs, which programs may include chargebacks to the Hotel for guest refunds or credits, and (ii) all required Brand quality assurance programs and mystery shopper and guest programs; and maintain minimum performance standards and scores for such quality assurance programs that we may establish from time to time in the Brand Manual;

(14) comply with Brand Standards as to maintenance, appearance and condition of the Hotel, and adopt in your business all changes or additions to the Brand as we may periodically designate;

(15) honor all nationally-recognized credit cards and credit vouchers issued for general credit purposes which are generally honored at other Brand Hotels, and enter into all necessary credit card and voucher agreements with the issuers of such cards or vouchers;

(16) implement, at a minimum, all industry-standard administrative, physical and technical safeguards advisable to protect any information that can be used to identify an individual, including but not limited to 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**"). You must use best efforts to protect guests against a cyber-event, identity theft or theft or other inadvertent disclosure of Personal Information. No assistance, guidance, standards or requirements that we provide you constitute a representation or warranty of any kind, (express, implied or collateral) that your Hotel is compliant with federal, state, or local privacy and data laws, codes, regulations, or acceptable industry standards. You also hereby represent and warrant that you have or will, within 30 days following the Effective Date of this

Agreement, implement Payment Application Data Security Standard (“**PADSS**”) certified technology and will make commercially reasonable efforts to comply with Payment Card Industry Data Security Standards. It is your responsibility to confirm that the safeguards you use to protect Personal Information comply with all laws and industry best practices related to the collection, access, use, storage, disposal and disclosure of Personal Information. You will ensure that all necessary consents have been obtained in order to use, and to transfer or disclose to us any Personal Information (as defined in the applicable privacy legislation). If you become aware of a suspected or actual breach of security or unauthorized access involving Personal Information, you will notify us immediately and specify the extent to which Personal Information was compromised or disclosed. You also agree to follow our instructions regarding curative actions and public statements relating to the breach;

(17) comply with all governmental requirements, including the filing and maintenance of any required trade name or fictitious name registrations, pay all taxes, and maintain all governmental licenses, registrations, authorizations and permits necessary to operate the Hotel in accordance with the Brand and Brand Standards. It is your responsibility to make such inquiries and obtain such advice as needed by you in order to ascertain and comply with such laws. No assistance, guidance, standards or requirements that we provide you constitute a representation or warranty of any kind (express, implied, or collateral) that your Hotel is compliant with federal, state, or local laws, rules, bylaws, regulations, or ordinances;

(18) permit inspection of the Hotel by our representatives at any time to ensure compliance with Brand Standards, cooperate fully with our representatives during these inspections and take all steps necessary to correct any deficiencies detected within the time periods we specify. You will also provide free lodging to our personnel at the Hotel while they are making their inspections on a space-available basis, and will also be responsible for the cost of their travel and meals;

(19) provide to us statistics on Hotel operations in the form we specify and using definitions we specify within three business days following the end of the preceding month;

(20) not engage, directly or indirectly, in any cross-marketing or cross-promotion of the Hotel with any other hotel, lodging or related business, except for Brand Hotels, without our prior written consent;

(21) participate in, and pay all fees of, any Brand travel agent commission payment program(s) as modified from time to time, and promptly pay in accordance with the Brand Standards or specific program terms, all travel agent commissions and all reservation fees including but not limited to third party reservation fees in accordance with the terms of these programs;

(22) refer guests and customers, wherever reasonably possible, only to Brand Hotels and Network Hotels and (if and as we direct) any other hotel systems owned or licensed by us or the Entities (“**Other Hotel Systems**”) (except that this will not prohibit us from requiring you to participate in programs designed to refer prospective customers to other hotels, whether in the Brand or not); display all material, including brochures and promotional material we provide for Brand Hotels and Network Hotels and Other Hotel Systems; and allow advertising and promotion only of Brand Hotels and Network Hotels and Other Hotel Systems on the Hotel premises;

(23) treat as confidential all terms of this Agreement (including the amounts and methods of calculating all payments to Franchisor), the Brand Manual, Brand Standards, and all other information or materials concerning the methods, techniques, plans, specifications, procedures, information, systems and knowledge of and experience in the development, operation, design, marketing and licensing of the Brand or Network (the “**Confidential Information**”). You acknowledge and agree that you: (i) do not acquire any interest in the Confidential Information other than the right to utilize the same in the development and operation of the Hotel under the terms of this Agreement, (ii) will not use the Confidential Information in any business or for any purpose other than in the development and operation of the Hotel under the Brand, (iii) will maintain the absolute confidentiality of the Confidential Information during and after the License Term, (iv) will not make unauthorized copies of any portion of the Confidential Information, (v) will 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 and non-competition clauses in agreements with employees, agents and independent contractors who have access to the Confidential Information, and (vi) will return to us all Confidential Information in your possession or control following the expiration or termination of this Agreement, including all adaptations, translations, transliterations, or works derived from the Brand, Proprietary Marks, or other proprietary rights. If we approve such adaptation, translation, transliteration, or work, you agree that the

derivative work will be our property, and you assign all of your right, title, and interest in it to us. These restrictions will not apply to any information that does not relate or refer in any way or part to the Brand, Brand Manual, Proprietary Marks or the Network and that you can demonstrate came lawfully to your attention before our disclosure or which, at the time of or after our disclosure, becomes a part of the public domain through lawful publication or communication by others. You acknowledge that the use or duplication of the Confidential Information in any other business venture would constitute an unfair method of competition and a breach of trust and confidence;

(24) not own, either directly or through any member of an affiliated group (as defined by the Internal Revenue Code), in whole or in part, or be the licensor of, a Competitor without our prior written consent. These restrictions do not restrict you from (i) owning a minority interest in a Competitor if you do not provide services to the Competitor (including as a consultant or employee), do not hold any officer, director, or similar position with the Competitor, and have no control or influence in the business decisions of the Competitor, (ii) being a franchisee or licensee of a Competitor; or (iii) managing a property for a Competitor. A **“Competitor”** is defined as any entity that owns in whole or in part, whether directly or indirectly, a hotel brand or trade name (whether or not licensed) that, in our judgment, competes with the Brand or Network Hotels, irrespective of the number of hotels comprising the competitive hotel brand;

(25) own fee simple title (or long-term ground leasehold interest, provided that such interest has been granted to you by an unrelated third party ground lessor in a bona fide arms’ length transaction for a term equal to, or longer than, the License Term) to the real property and improvements of the Hotel, or, at our request, cause the fee simple owner or other third party acceptable to us, to provide its guaranty covering all of your obligations under this Agreement in form and substance acceptable to us;

(26) maintain possession and control of the Hotel and Hotel site, and promptly deliver to us a copy of any notice of default you receive from any mortgagee, trustee under any deed of trust, or ground lessor for the Hotel, and upon our request, provide any additional information we may request related to any alleged default or any subsequent action or proceeding in connection with any alleged default;

(27) refrain from directly or indirectly conducting, or permitting by lease, concession or arrangement, gaming or casino operations in the Hotel or on its premises without our express written permission, which we may withhold at our sole discretion, and then only to the extent and subject to the terms set forth in such permission;

(28) obtain and maintain in full force and effect from and after the confirmed Opening Date of the Hotel as set forth in the Rider all licenses required for the sale of alcoholic beverages at the Hotel (unless no alcoholic beverages are offered at or from the premises of the Hotel);

(29) promptly provide to us all information we reasonably request with respect to you and your affiliates, including your respective officers, directors, shareholders, partners or members, and the Hotel, including information about title to the property on which the Hotel is constructed and any other property used by the Hotel. The information requested also may include, but is not necessarily limited to, financial condition, personal and family background, prior and pending litigation, indictments, criminal proceedings and the like in which any of the aforementioned may have been involved;

(30) participate in, and pay, all charges related to (i) Brand or Network marketing programs (in addition to programs covered by Brand Fees), and (ii) all loyalty programs we require, including any payments then owing under the then existing rules of such programs upon termination of such programs. You also agree to honor the terms of any discount or promotional programs (including any frequent guest program) that we offer to the public on your behalf, any room rate set by you quoted to any guest at the time the guest makes a reservation, and any award guest certificates issued to Hotel guests participating in these programs;

(31) operate the Hotel consistent with sound marketing and industry practice and not engage in any conduct that is detrimental to the Hotel, Brand, Network, us or our Entities;

(32) report your rooms sold and Gross Rooms Revenue to us and STR (formerly Smith Travel Research) on a monthly basis;

(33) ensure, on an ongoing basis, that the description of your Hotel, its amenities and features, and its Guest Rooms, including those you believe make the Hotel and its premises accessible to persons with disabilities, is current and accurate in the CRS, on Brand-specific Websites, and in any third-party distribution channels;

(34) if at any time during the License Term your Hotel undergoes significant renovations or you make improvements in accordance with a property improvement plan (“PIP”) that we issue to you, we may require you to hire a professional photographer, approved by us and at your expense, to conduct an additional photography session for your Hotel;

(35) promptly upon receipt, provide us a copy of any and all notices you receive from any person, entity or governmental authority claiming that you (or your owners, guarantors, affiliates, or employees) have violated any law, regulation, permit, license, agreement or committed any other breach, default or violation in connection with the operation of the Hotel, including any default notices from any supplier, any violation notices from a health or safety regulatory board, and any customer complaints alleging violations of law;

(36) comply with all applicable federal, state, and local laws, rules and regulations, including, without limitation, antiterrorism laws; and

(37) only accept from customers the forms of payment and currencies that we approve.

b. **Hotel Quality Assurance.** We may from time to time require you to modernize, rehabilitate or upgrade the Hotel’s fixtures, equipment, furnishings, furniture, signs, computer hardware and software and related equipment, supplies and other items to meet the then current Brand Standards. You will make all these changes at your sole cost and expense. Nothing in this Section will relieve you from the obligation to maintain acceptable product quality ratings at the Hotel and maintain the Hotel in accordance with the Brand Standards at all times during the term of this Agreement. We may make limited exceptions to some of those Brand Standards based on local conditions or special circumstances but we are not required to do so. You may not make any change in the number of approved Guest Rooms set forth in the Rider or any other significant change (including major changes in structure, design or décor) in the Hotel without complying with the then current Brand Standards or, if such change does not comply with our then current Brand Standards, receiving our prior written approval. At any time during the term of this Agreement we may issue a PIP to you 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. We may charge you our then current PIP fee (currently \$1,000) in connection with each PIP we issue to you.

c. **Staff and Management.** You are at all times solely responsible for the management of the Hotel’s business. You may fulfill this responsibility only by providing (i) qualified and experienced management, which may be a third party management company, and (ii) a general manager, (collectively, the “**Management**”). We reserve the right to require that you obtain our approval of your Management, though we are not obligated to review or approve your Management. However, you represent and agree that you have not, and will not, enter into any lease, management agreement or other similar arrangement for the operation of the Hotel or any part of the Hotel with any person or entity without our prior written consent, which in the future we will not unreasonably withhold. To be approved by us as the operator of the Hotel (if we elect to exercise our right to approve the operator), you or any proposed Management must be qualified to manage the Hotel. We may refuse to approve you or any proposed Management which, in our reasonable business judgment, is inexperienced or unqualified in managerial skills or operating capacity or capability, or is unable to adhere fully to the obligations and requirements of this Agreement. You understand that we reserve the right to not approve a Competitor, or any entity that (through itself or an affiliate) is the exclusive manager for a Competitor, to manage the Hotel. If any Management becomes a Competitor or otherwise becomes unsuitable in our reasonable discretion to manage the Hotel at any time during the License Term, you will have 90 days to retain qualified substitute Management acceptable to us. Any Management must have the authority to perform all of your obligations under this Agreement, including all indemnity and insurance obligations. In the case of any conflict between this Agreement and any agreement with Management, this Agreement prevails.

d. **Insurance Requirements.** During the term of this Agreement you must maintain in force at your sole expense commercial general liability (CGL) insurance, liquor liability (applicable only when or if you distribute, sell, serve, or furnish alcoholic beverages), automobile liability insurance coverage, garage-keepers’ liability, umbrella or excess liability insurance policies, property/all risk and contents insurance (or builder’s risk insurance during any period of construction), boiler & machinery insurance, business interruption insurance, and workers’ compensation insurance, all complying with our specifications as to amount and type of coverage, which we may prescribe from time to time in writing. Such insurance is in addition to any other insurance that may be required by applicable law, your landlord, your mortgagee, or

otherwise, We also strongly recommend policies covering crime liability (for employee dishonesty), employment practices liability insurance, and cyber liability insurance.

Each of the insurance policies must: (i) be written by an insurance company with an A.M. Best rating of "A" or better as rated in the most recent edition of Best's Insurance Reports or comparable publication; (ii) to the extent legally permissible, name us, our affiliates, and our and their respective officers, directors and employees as additional named insureds and loss payees for all liability coverage policies; (iii) provide that the coverages will be primary and that any insurance carried by us will be excess and non-contributory; and (iv) provide that all coverages afforded to us (and our affiliates) will be coextensive with the coverage provided to you or any named insured on such policy, and any language in such policy that purports to limit the coverage available to us (and our affiliates) will be deemed deleted as to us (and our affiliates). We periodically may change the amounts of coverage required under the insurance policies and require different or additional kinds of insurance, including excess liability insurance. All insurance may be effected under policies of blanket insurance which cover your other properties and affiliates so long as such blanket insurance satisfies our requirements, as they periodically are modified. 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. 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 9 or otherwise.

Within 10 days of the Effective Date, and in any event, prior to opening your Hotel as a Brand Hotel, you must provide us certificates of insurance showing compliance with the insurance requirements. The certificate of insurance must include a statement that the policies will not be canceled without at least 30 days' prior written notice to us. Upon our request, you must supply us with copies of all insurance policies and proof of payment. You also must deliver renewal certificates to us not less than 10 days prior to each insurance policy's renewal date.

If, for any reason, you fail to procure or maintain the insurance we periodically prescribe, we have the right (but not the duty) to procure such insurance for you. We may procure less than the amount of insurance required by this Agreement and will not be liable to you if the amount we procure is insufficient to cover your risks. If we do procure such insurance, we will charge the cost of such insurance to you. Upon demand, you will immediately pay us such charges, plus a reasonable fee for our expenses in so acting (currently \$500 per month). The insurance maintained by us does not in any way limit or affect your obligation to procure and maintain the types and amounts of policies we periodically require. Further, our performance of your obligations will not relieve you of liability under the indemnity provisions set forth in this Agreement, nor will it act as a waiver of any other remedies available to us as a result of such default.

e. **No Disparagement.** Both during and after the License Term, you and your owners agree not to: (i) subject us or our affiliates or any of our or their respective officers, directors, stockholders, employees, or representatives, any other Brand Hotels or their owners or franchisees of the Network, any aspect of the Brand or the Network, or any other of our brand concepts or those of our affiliates, to ridicule, scandal, reproach, scorn, or indignity, (ii) disparage or negatively impact the goodwill of the Brand or the Network, or (iii) take any action that would constitute an act of moral turpitude.

f. **Professional Photography.** We may require you to hire a professional photographer to take photographs of your Hotel prior to the opening of your Hotel.

7. Fees.

a. **Initial Fee.** You must pay us at the time of your execution of this Agreement a non-refundable initial fee equal to the sum of (x) \$20,000, *plus* (y) the product of \$150 times the number of Guest Rooms in excess of 60 ("**Initial Fee**"). The amount actually paid to us is set forth in the Rider to this Agreement. The Initial Fee must be paid to us by cashier's check, bank certified check, or wire transfer.

b. **Onboarding Administration Fees.** You will pay us an onboarding administration fee of \$1,000, when billed, for onboarding services we provide to you in connection with opening the Hotel under the Brand. Upon the transfer any Equity Interest (as defined in Section 11.b) in the Franchisee, you or the transferee will pay us our then-current subsequent onboarding administration fee for each change in

ownership (currently, \$1,000), when billed, for the onboarding services we provide in connection with new ownership of the Hotel.

c. **Brand Fee.** You will pay us a monthly Brand fee equal to \$60 per Guest Room (“**Brand Fee**”), subject to a monthly minimum Brand Fee calculated based on 50 Guest Rooms. Your obligation to make monthly payments of the Brand Fee will begin on the Opening Date. Upon 30 days’ prior written notice to you, we may increase the Brand Fee by a maximum of 3% per calendar year.

d. **Brand Conference Fee.** You will pay us a conference fee of \$100 per month (the “**Conference Fee**”), which is subject to change at our discretion from time to time. The Conference Fee covers the attendance for one person at the brand conference. If you are permitted to send additional attendees, you will be required to pay an additional \$695 per attendee prior to their attendance at the conference. We may also increase this fee from time to time. You will also be responsible for the travel costs and expenses for your attendees.

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. **PMS-to-CRS Enhanced Connectivity Fee.** You will pay us a non-refundable aggregate monthly fee (the “**PMS-to-CRS Enhanced Connectivity Fee**”) of \$99 in association with connecting your PMS to our CRS and in connection with our utilization of a data enrichment platform. The amount of the PMS-to-CRS Enhanced Connectivity Fee is subject to increase from time to time as the third-party fees included in the PMS-to-CRS Enhanced Connectivity Fee increase. You will pay a one-time reservation implementation fee of \$445 upon the Hotel becoming active in the CRS and a monthly interface fee, both of which are charged by our third-party CRS provider but invoiced and collected by us.

g. **Booking Fees and Commissions.** 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. You agree to timely pay all such fees and commissions. A summary of the currently applicable booking fees and commissions is set forth in Schedule 7.g. The booking fees and commissions are subject to change.

h. **Other Fees.** You will pay to us for each month, or as otherwise billed, certain other fees resulting from the programs in which you are or will be required to participate as further described in the Brand Manual which may change from time to time. You will be obligated to make payments for all such fees from the time those fees are incurred, regardless of the Opening Date. Currently these programs and fees include but are not limited to the following:

Brand Programs	Current Applicable Fees (Subject to Change)
Market Intelligence	Up to \$225 per month
Operations Insights	\$69.50 per month
Guest Relations Program	\$25 to \$125 per issue
Online Review Response Fee	\$39 to \$150 per response
Revenue Management for Hire	\$750 per month up to 250 rooms
TMC and Consortia Fees	\$3.50 per room per night (or listing fee payable to third party TMC or consortia)
Corporate Account and Subscription Services	Up to \$1,800 per year
Reservation System Maintenance Fee: Future Rate and Inventory	\$250 – 1 st occurrence \$500 – 2 nd occurrence \$1,000 – per occurrence thereafter
Reservation System Maintenance Fee: CRS Services	\$150 per occurrence

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 **Brand’s** online franchisee portal. We have the right to rename certain programs, add or remove programs, and modify fees for various elements of the **Brand** 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.

i. **Payment of Fees.** You will pay all invoiced amounts within 30 days of the date of the applicable invoice. Unless otherwise directed by us, all payments due to us or any of our affiliates will be paid by an automated payment system using automatically recurring electronic funds transfers that we initiate ("**Recurring EFT**"), also known as Auto Pay. You will authorize Recurring EFT transfers prior to activation in the brand and will cooperate with us to implement and maintain the efficient process of Recurring EFT payments. You must ensure that we have up-to-date viable payment instructions (e.g., bank account and routing numbers) at all times during the term of this Agreement. You also shall maintain such bank account(s) for such payments and shall maintain an account balance that at least covers your Brand Fees and any other fee described in this Section 7. You shall not alter or close any such account except with our prior written approval. If we permit you to pay by any other means, we may require payment of a convenience fee that is subject to change. We may, at any time, modify the required method of payment by providing you with at least 30 days' prior notice. Your obligation to pay amounts due us or any of the Entities will not be suspended as a result of any interruption to your business, regardless of the cause. All amounts payable by you or your owners to us or our affiliates must be in United States Dollars (\$USD) or such other currency as we may designate.

j. **Initial Property Improvement Plan.** If you are converting an existing hotel into a GuestHouse Extended Stay-branded hotel, we may issue you a PIP to which you must agree as a condition of approval that sets forth a list of items you must perform to conform your Hotel to the Brand Standards prior to your Opening Date (or within such timeframe as may be stated in the PIP). If we issue you a PIP, we may require you to pay us a non-refundable \$1,000 fee before we approve you as a Brand franchisee.

k. **Room Addition Fee.** If you add or construct additional Guest Rooms at the Hotel at any time after you sign this Agreement, you will pay us a nonrefundable fee equal to the per Guest Room Initial Fee charged to Brand Hotels multiplied by the number of additional Guest Rooms ("**Room Addition Fee**"). You must pay the Room Addition Fee to us when you submit an application to add any Guest Rooms to the Hotel, and you must submit that application to us before you enter into any agreement to add any Guest Rooms to the Hotel. As a condition to our granting approval of such application, we may require you to modernize, rehabilitate or upgrade the Hotel, subject to Section 6.b. of this Agreement.

l. **Accelerated Property Experience ("APEX") Program Fee.** In lieu of an annual inspection of your Hotel, we will rely on guided self-assessments by you; guest reviews and other online reputation resources; and feedback we receive from guests and our colleagues, including vendors. If (i) we become concerned, based on guest complaints or online reviews, about the condition of your Hotel or the services it offers; or (ii) you request our assistance, then we may arrange a visit to your Hotel to undertake improving its online reputation, including its TripAdvisor Score. We call this process our Accelerated Property Experience, or "**APEX.**" You will provide us access to your Hotel and personnel to complete any assistance in connection with the APEX program, and you will provide lodging to our representative conducting APEX program visits to your Hotel at your expense. We periodically may change our inspection, re-inspection, assessment, or APEX program and fees.

m. **Additional Fees.** You will timely pay all amounts due us or any of the Entities on any invoices or for goods or services purchased by or provided to you or paid by us or any of the Entities on your behalf, including pre-opening sales and operations training.

n. **Taxes.** If any gross receipts, sales, use, excise or any similar tax that is based upon gross income or revenues is imposed upon us or the Entities for the receipt of any payments you are required to make to us or the Entities under this Agreement, then you must also pay us or the Entities, as applicable, an amount equal to such tax. If any gross receipts, sales, use, excise or any similar tax that is based upon gross income or revenues is imposed upon the payment made pursuant to this Section 7, the amount due under this Section 7.m will be an amount such that the net amount retained by us, after payment of such tax, equals the tax imposed on all payments made under this Agreement.

o. **Application of Fees; Late Payment Charges.** We may apply any amounts received under this Section 7 to any amounts due under this Agreement. If any amount 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 of the month 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 and agree that if you fail to pay any amounts when due, we may report your delinquent payment to credit bureaus.

8. Records.

a. **Reports.** At our request, you will prepare and deliver to us daily, monthly, quarterly and annual operating statements, profit and loss statements, balance sheets, and other reports (the “**Reports**”) we require, prepared in the form, and by the methods and within the time frames, we require under the Brand Standards. The reports will contain all information we require, including daily rate and room occupancy, and will be certified as accurate in the manner we require. You will also provide us any additional related information and Reports we may periodically request and permit us to inspect your books and records at all reasonable times. At least monthly you will prepare a statement that will include all information concerning Gross Rooms Revenue, other revenues generated at the Hotel, room occupancy rates, reservation data and other information we require (the “**Data**”). By the third business day of each month, you will submit to us a statement setting forth the Data for the previous month and reflecting the computation of the amounts then due under Section 7, in the form and detail we reasonably request.

b. **Maintenance of Records.** You will, in a manner and form satisfactory to us and using accounting and reporting standards we reasonably require, prepare on a current basis (and preserve for no less than the greater of four years or our record retention requirements), complete and accurate records concerning Gross Rooms Revenue and all financial, operating, marketing and other aspects of the Hotel, and maintain an accounting system that fully and accurately reflects all financial aspects of the Hotel and its business. These records will include books of account, tax returns, governmental reports, register tapes, daily reports, and complete quarterly and annual financial statements (including profit and loss statements, balance sheets and cash flow statements).

c. **Ownership of Information.** All of the information we obtain from you or about the Hotel or its guests under this Agreement, or under any agreement ancillary to this Agreement (including any agreements relating to the computerized reservation, revenue management, property management, and other system(s) we provide or require or may provide or require in the future), or otherwise related to the Hotel (the “**Information**”), and all revenues we derive from such information will be our property. However, you may at any time during or after the License Term use to the extent lawful and at your sole risk and responsibility any information that you acquire from third parties in operating the Hotel, such as customer data. We may independently access and retrieve the Information from your computer system as often as we deem appropriate. The Information (except for Information you provide to us or the Entities with respect to you and your affiliates, including your respective officers, directors, shareholders, partners or members) will become our Confidential Information which we may use for any reason as we deem necessary or appropriate, at our sole discretion. You acknowledge and agree that we may provide the Hotel name, address, principal contact phone number, and number of Guest Rooms, to authorized vendors or other suppliers. You may designate certain information related to you and your affiliates, including your respective officers, directors, shareholders, partners or members as confidential. If so, we will be bound by the same standards of confidentiality as to such information as apply to you with regard to our Confidential Information. Notwithstanding the previous sentence, if we or our accountants or any of the Entities’ or their accountants are required by law to disclose any such confidential information you designate pursuant to any applicable law or regulation, or in accordance with generally accepted accounting principles, you hereby consent to any such disclosure.

9. Indemnity by Franchisee.

You agree, during and after the License Term, to indemnify us and the Entities, and our and their successors and assigns, and the current and former owners (direct and indirect), partners, shareholders, members, officers, directors, employees, agents, predecessors, successors and assigns of each such entity (the “**Indemnified Parties**”) against, and hold them harmless from, all losses, costs, liabilities, damages, claims, and expenses, including reasonable attorneys’ fees, arising out of or resulting from (i) any claimed

occurrence at the Hotel or arising from, as a result of, or in connection with the development, construction or operation of the Hotel (including the design, construction, financing, furnishing, equipment, acquisition of supplies for your Hotel or operation of the Hotel in any way); (ii) any bodily injury, personal injury, death or property damage allegedly or actually suffered by any guest, customer, visitor or employee of the Hotel; (iii) your alleged or actual infringement or violation of any patent, mark or copyright or other proprietary or intellectual property right owned or controlled by third parties; (iv) your alleged or actual violation or breach of any contract, federal, state or local law, regulation, rule, bylaw, ordinance, ruling, standard or directive applicable to the Hotel, or of any industry standard; (v) any other business conducted by you or a third party in, on or about the Hotel or its grounds; (vi) our access of your computer hardware or software; (vii) any claim by any employee, independent contractor, agent, vendor, supplier or third party relating to or arising out of your employment, contractor or other business relationship with them; (viii) any inaccurate description of your Hotel, its amenities and features, and its Guest Rooms, including those regarding its accessibility to persons with disabilities; (ix) your breach of any of the representations and warranties provided in Section 17.i of this Agreement; or (x) any other of your acts, omissions or obligations or those of anyone associated or affiliated with you or the Hotel or in any way arising out of or related to this Agreement. However, you do not have to indemnify us to the extent damages otherwise covered under this Section are adjudged by a court of competent jurisdiction to have been the result of the gross negligence or willful misconduct of any of the Indemnified Parties so long as the claims are not asserted on the basis of (i) theories of vicarious liability, including agency, apparent agency or employment or (ii) our failure to compel you to comply with the provisions of this Agreement. You will give us notice of any action, suit, proceeding, claim, demand, inquiry or investigation involving an Indemnified Party within five days of your actual or constructive knowledge of it. At our election, you will defend us and the Indemnified Parties against the same, or we or another Indemnified Party may elect to assume (but under no circumstance will we be obligated to undertake) and control the defense and settlement of the action, suit, proceeding, claim, demand, inquiry or investigation at your expense and risk. Each Indemnified Party may obtain separate counsel in its discretion and at your expense. Our undertaking of defense or settlement will in no way diminish your obligation to indemnify the Indemnified Parties and to hold them harmless. In either case, you will also reimburse the Indemnified Parties upon demand for all expenses, including reasonable attorneys' fees and court costs, the Indemnified Parties incur to protect themselves, or to remedy your defaults. Under no circumstances will the Indemnified Parties be required to seek recovery from third parties or otherwise mitigate their losses to maintain a claim against you, and their failure to do so will in no way reduce the amounts recoverable from you by the Indemnified Parties. Further, you will indemnify the Indemnified Parties for any claim for damages by reason of failure of any contractor, subcontractor, supplier or vendor doing business with you relating to the Hotel to maintain adequate insurance as required under the Brand Standards.

10. Indemnity by Franchisor.

We will indemnify you and your successors and assigns, and the members, officers, directors, employees, agents, predecessors, successors and assigns of each such entity against, and hold them harmless from all costs and expenses of defense, including reasonable attorneys' fees, of any claim of infringement or violation of any patent, mark or copyright or other proprietary right owned or controlled by third parties based upon your use of the Proprietary Marks and the Brand. You will give us notice of any action, suit, proceeding, claim, demand, inquiry or investigation which is subject to this indemnification within five days of your actual or constructive knowledge of it.

11. Transfer.

a. **Our Transfer of this Agreement.** 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. You acknowledge and agree that this Agreement is a license for only the Proprietary Marks, and the programs that are unique to the Proprietary Marks and Brand. Therefore, if we transfer or assign this Agreement, your right to use any programs, rights or services related to or provided by the Entities or their designees, including any loyalty program not unique to the Brand and any Network Marks, may terminate.

b. **Your Transfer.** We recognize that at some time, you may want to sell or transfer all or part of your interest in this Agreement, or in the Hotel. At the same time, you understand and acknowledge that the rights and duties set forth in this Agreement are personal to you and are not intended to benefit any other entity, including any successor to any direct or indirect interest in the Hotel, without our prior

written consent, and that we are entering into this Agreement in reliance on your business skill, financial capacity, and personal character (if you are an individual), and that of your partners, members or shareholders (if you are a partnership, company, corporation or other legal entity). As a result, you agree that if you desire to sell, transfer or lease your interest in this Agreement, or in the Hotel, or in you or in any entity that has an interest in you (if you are an entity), this Agreement or the Hotel, you will abide by the terms of this Section 11.b.

For purposes of this Section 11.b., the term “**control**” in all its forms, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, or of the power to veto major policy decisions of an entity, whether through the ownership of voting securities or by contract. References in this Agreement to “**Equity Interests**” mean any direct or indirect beneficial interest in the Franchisee (an “**Indirect**” Interest is an interest in an entity other than the Franchisee that either itself, or through others, has an interest in the Franchisee). References in this Agreement to “**Equity Owners**” mean the owners of a direct or indirect Equity Interest in the Franchisee or in the Hotel. “**Publicly Traded Equity Interest**” means any Equity Interest that is traded on any securities exchange or is quoted in any publication or electronic reporting service maintained by the National Association of Securities Dealers, Inc., or any of its successors. In computing changes of Equity Interests, limited partners will not be distinguished from general partners except as provided below. General partners, managing members and other controlling interests in Franchisee will be considered Equity Owners for purposes of this Section, regardless of whether they have any actual ownership interest in the Franchisee. Non-voting equity interests may not qualify as an Equity Interest, at our sole discretion. Our judgment will be final if there is any question as to the definition of Equity Interest or as to the computation of relative Equity Interests. You represent that as of the date of this Agreement the Equity Interests are directly and (if applicable) indirectly owned as shown on the Rider.

(1) Transfers That Do Not Require Our Consent or Notification.

(a) **Privately Held Equity Interests.** Equity Interests that are not publicly traded may be transferred by you and the Equity Owners without notice to us and without our consent, if after the transaction: (i) less than 20% of all Equity Interests will have changed hands since the date of this Agreement, and (ii) there has not been a change of control of the Franchisee, of your interests in this Agreement, or of the Hotel since the date of this Agreement.

(b) **Publicly Held Equity Interests.** Publicly Traded Equity Interests may be transferred without notice to us and without our consent if the transfer does not effectuate a change of control of the Franchisee, of your interests in this Agreement, or of the Hotel.

(2) **Commercial Leases.** You may lease or sublease commercial space in the Hotel that is customarily subject to lease, or enter into concession arrangements in the ordinary course of business at the Hotel, only with notice to us and with our prior written consent.

(3) **Other Transfers.** No other direct or indirect interest in the Hotel or in this Agreement, and no direct or indirect Equity Interest in the Franchisee, may be sold, leased, assigned, or transferred in any way (individually or collectively, a “**Transfer**”), except as specifically provided in this Section 11.b.(3). If you want to transfer any Equity Interest in the Franchisee, or your interest in this Agreement or in the Hotel, other than in a transaction that meets the requirements of Section 11.b.(1), you must first notify us and you must first obtain our prior written consent.

(a) **Permitted Transfers.** We will permit certain transfers as outlined in Sections 11.b(3).(a)(i)-(iv) below (the “**Permitted Transfers**”). We will consent to a Permitted Transfer, so long as you (i) give us 60 days advance written notice of any proposed Permitted Transfer (the “**Permitted Transfer Consent Request**”), and (ii) submit to us a nonrefundable processing fee of \$20,000 with the Permitted Transfer Consent Request to cover our costs to review the Transfer (except that in the case of a Transfer of Equity Interests which requires registration under any federal or state securities law, you also must pay our then current administrative fee), and meet the requirements for the particular Permitted Transfer as described below.

(i) **Affiliate Transfer.** With our consent, you or any of your Equity Owners as of the date of this Agreement may sell, lease, transfer or otherwise convey any Equity Interest in the Franchisee, this Agreement, or the Hotel to an Affiliate (each an “**Affiliate Transfer**”); provided that such event does not, in our opinion, result in a change in the ultimate party controlling the Franchisee, your interests in this Agreement, or the Hotel and the conditions described herein are met. “Affiliate” means,

with respect to any entity, any natural person or firm, corporation, partnership, association, trust or other entity which, directly or indirectly, controls, is controlled by, or is under common control with, you or any Equity Owners as of the date of this Agreement. A natural person or entity which has an entity as an Affiliate will also be deemed to be an Affiliate of that entity. We will not withhold our consent to an Affiliate Transfer if (i) you are not then in material default under this Agreement; (ii) the Affiliate Transfer is not, directly or indirectly, to a Competitor; and (iii) you otherwise satisfy the conditions as set forth in Sections 11.b.(3)(b)(i)-(vii), (ix)-(xi) below.

(ii) **Family Transfers.** If you or an Equity Owner are a natural person, and desire to sell, lease, transfer or otherwise convey any Equity Interest in the Franchisee, this Agreement, or the Hotel, (i) to a member or members of your or any such Equity Owner's immediate family (i.e. spouse, children, parents, siblings) ("**Family Members**") or (ii) a trust or trusts for the benefit of Equity Owner or the Equity Owner's Family Member(s) (each, a "**Family Transfer**"); in either case, without causing a change in the ultimate controlling party of the Franchisee, this Agreement, or the Hotel, we will not withhold our consent to a Family Transfer if you otherwise satisfy the conditions set forth in Sections 11.b.(3)(b)(i)-(vii), (ix)-(xi) below that we may require you to satisfy.

(iii) **Transfer Upon Death.** Upon the death of a Franchisee or Equity Owner, this Agreement or the Equity Interest (if applicable) may pass in accordance with such person's will or, if such person dies intestate, in accordance with laws of intestacy governing the distribution of such person's estate, without our consent; provided that (i) the Transfer is to a Family Member or to a legal entity formed by such Family Member(s), and (ii) within one year after the death, such Family Member(s) or entity meets all of our then current requirements for an approved applicant.

(iv) **Brick and Mortar Transfers.** You may sell, lease or transfer the Hotel, the Hotel site, or any portion thereof if, in our reasonable judgment, after the sale, you retain possession and control of the Hotel site and the management control of the Hotel operations and continue to comply with the requirements of Section 6.a.(24), provided you give us at least 60 days' prior notice of the proposed transfer, and any Transfer Information (as defined in Section 11.b.(3)(b)(vi) below) that we request. If, in our reasonable judgment, the Transfer will result in your loss of possession or control of the Hotel or Hotel site or management of the Hotel, the sale will then be considered a change of ownership and you must comply with the provisions of Section 11.b.(3)(b).

(b) **Change of Ownership.** Any proposed Transfer that does not otherwise qualify as a Permitted Transfer as defined in Section 11.b.(3)(a) above will be considered a change of ownership ("**Change of Ownership**"). If there is a proposed Change of Ownership and the proposed owner desires to continue to operate the Hotel as a Brand Hotel, the proposed owner must submit to us a complete application for a new franchise agreement (the "**Change of Ownership Application**") accompanied by payment of our then current Initial Fee. The proposed owner also may be required to comply with a PIP in the event we determine there are renovation requirements for the Hotel.

We will process the Change of Ownership Application in accordance with our then current procedures, including review of criteria and requirements regarding upgrading of the Hotel, credit, background investigation, operations abilities and capabilities, prior business dealings, market feasibility, guaranties, and other factors we consider relevant. We will have 60 days from our receipt of the completed and signed application to consent or withhold our consent to the proposed owner as Franchisee.

We may, at our option, make our consent subject to satisfaction of certain conditions, including:

(i) The cure of any existing defaults or events that would become defaults with the giving of notice and passage of time, including, the payment in full at the closing of the Transfer (the "**Closing**") of all unpaid obligations owed to us and any Entities by you, and the renovation by you or the proposed owner of all or part of the Hotel;

(ii) Receipt of evidence from the transferee that insurance coverage, as required by this Agreement, is in full force and effect on the date of Closing;

(iii) Payment of the amount of any fees and charges we estimate will accrue to us or any Entity through the date of Closing;

(iv) That you at all times remain in compliance with the terms of this Agreement pending the Closing;

(v) Your signing of a voluntary termination agreement, and an estoppel and a general release, in a form satisfactory to us, of any and all claims, demands and causes of action that you and your partners, proprietors, directors, officers, shareholders, members, successors and assigns (as the case may be) may or might have against us or any of the Entities, and our and their respective officers, directors, shareholders, agents, attorneys, contractors and employees in their corporate and individual capacities including claims arising under federal, state and local laws, rules and ordinances;

(vi) That you submit to us all information related to the Transfer that we may reasonably require, including copies of any proposed agreement(s), the proposed ownership structure of the proposed transferee if ownership of this Agreement or of the Hotel is being transferred and all entities involved, the names and addresses of the proposed owners of the Equity Interests and of the site at which the Hotel is operated, financial statements and business information for all participants in the proposed sale or lease, and documentation evidencing the completion of the Transfer (collectively, the “**Transfer Information**”);

(vii) Evidence of adequate assurances (as determined by us at our sole discretion) of the proposed owner’s assumption of and ability to perform all, or its pro rata share, of your or any Equity Owners’ obligations under this Agreement;

(viii) Execution by the new owner of a new franchise agreement (“**New Agreement**”) with us. The New Agreement will (i) be on our then current form for the grant of new franchises, (ii) contain our then current franchise terms, and (iii) contain upgrading and other requirements, if any, that we impose;

(ix) Execution of the form of guaranty we proscribe by the same guarantors, if any, of this Agreement (unless the proposed owner is an unrelated third party) or substitute guarantors we approve;

(x) Successful completion by the proposed owner and its management team of any training and orientation programs we may require to appropriately protect the Network Marks and Brand;

(xi) If the Hotel premises are leased, the landlord allows you to transfer the lease or sublease the premises to the transferee;

(xii) If you or your owners finance any part of the purchase price, we reserve the right to require that you and your owners subordinate any of the transferee’s obligations under promissory notes or agreements with you or your owners or your security interests reserved in the Hotel, to the transferee’s obligation to pay amounts due to us, our affiliates and third-party vendors; and

(xiii) Your Hotel is being operated in all respects in compliance with the Brand Standards.

We have the right to withhold our consent to any proposed Transfer if any of these conditions are not met to our satisfaction, or if the proposed owner is a Competitor. If we approve the Change of Ownership Application and enter into a New Agreement with the new owner, we will not assess you any liquidated damages for early termination of this Agreement as long as the New Agreement is signed by the new owner no later than the Closing of the Change of Ownership transaction. If we do not approve the Change of Ownership Application, or if you or the new owner do not comply with all these conditions and the Transfer still occurs, then you will be in material default of this Agreement and we will be entitled to all of our remedies, including the right to terminate this Agreement, and the right to payment of all amounts set forth in Section 14.c.

(4) **Public Offering.** If you “offer to sell” or sell any securities in the Franchisee or in the Hotel, you shall do so in accordance with the terms and conditions set forth in this Section. All materials required by federal, state or other applicable law for the offer or sale of those securities must be submitted to us for review at least 20 days before the date you distribute those materials, or file them with any governmental agency, including any materials to be used in any offering exempt from registration under federal or state securities laws. You must pay us our then current administrative fee, and agree to pay any additional costs we may incur in reviewing your documents, including reasonable attorneys’ fees. You also may not use any of the Network Marks or otherwise imply our or any of the Entities’ 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 Network 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 the Entities' 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 or Network, 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 Entity, nor any of our or their respective owners, members, officers, directors, agents or employees, will in any way be deemed an issuer or underwriter of said securities, and that (ii) we, the Entities, and our respective owners, members, 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 9 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.

(5) Transfers Not in Accordance With This Agreement. Any purported Transfer, by operation of law or otherwise, not in accordance with the provisions of this Agreement, will be null and void and will constitute a material breach of this Agreement, which will allow us to terminate this Agreement without giving you any opportunity to cure. In addition, we will have all other rights and remedies, including the right to specific performance or mandatory or prohibitory injunctive relief, to redress any attempt on your part to transfer this Agreement other than in accordance with the provisions of this Agreement.

(6) 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 the Hotel or any Equity Interest to a third-party bank or other commercial lending institution that is not a Competitor. However, you do need to notify us and obtain our consent if you want to pledge or mortgage your interest in this Agreement. As a condition to our giving our consent to a pledge or mortgage of this Agreement we may 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 this Agreement for a Transfer involving a Change of Ownership.

12. Condemnation and Casualty.

a. **Condemnation.** You will, at the earliest possible time, give us notice of any proposed taking of any portion of the Hotel by eminent domain. If we agree that the Hotel or a substantial part of the Hotel is to be taken, we may, at our sole discretion and within a reasonable time of the taking (within four months) transfer this Agreement to a nearby location you select. If we approve a new location, and if within one year of the closing of the Hotel you open a new hotel (or are diligently proceeding toward opening a new hotel and ultimately do so) at the new location in accordance with our specifications and in accordance with our timing requirements, then the new hotel will be deemed to be the Hotel licensed under this Agreement. If a condemnation takes place and a new hotel does not, for whatever reason, become the Hotel under this Agreement within one year of the closing of the Hotel, then we may terminate this Agreement immediately upon notice to you, and we will require you to pay a Termination Fee under Section 14.c.

b. **Casualty.** If the Hotel is damaged by fire or other casualty, you will immediately notify us. If the damage or repair requires closing the Hotel, you may choose to repair or rebuild the Hotel according to the Brand Standards, provided you (i) immediately notify us (ii) begin reconstruction within six months after closing, and (iii) re-open the Hotel for continuous business operations as soon as practicable (but in any event within 18 months after the closing of the Hotel), giving us ample advance notice of the date of reopening. The License Term shall be extended the number of days the property is not open for business operations as specifically set forth in the notice described in the following sentence which grants the Hotel the right to re-open as a Brand Hotel on a specific re-opening date. Until we determine that the Hotel can be re-opened as a Brand Hotel, the Hotel will not promote itself as a Brand Hotel, or otherwise identify itself

with any of the Proprietary Marks without our prior written consent. You and we each have the right to terminate this Agreement if you elect not to repair or rebuild the Hotel as set forth above in this Section, provided the terminating party gives the other party 60 days' prior written notice, in which case we will not require you to pay a Termination Fee under Section 14.c; provided however, if subsequent to such termination notice and prior to the natural expiration of the License Term, you, or any of your Affiliates, have a controlling interest in or operate a hotel at this Hotel site and such hotel is not operated under a license or franchise from one of the Entities, then you must pay us the Termination Fee.

c. **No Extensions of License Term.** Except as provided in Section 12.b. above, nothing in this Section 12 will extend the License Term.

13. Term of License.

Unless terminated earlier, this Agreement will expire without notice on the date which is the day immediately preceding the 20th anniversary of the Opening Date. You acknowledge and agree that this Agreement is non-renewable and that this Agreement confers upon you absolutely no rights of renewal whatsoever following the termination or expiration of this Agreement. You also acknowledge and agree that should we exercise our discretion to offer you a new agreement on renewal, the terms of the agreement offered on renewal may be substantially different than the terms of this Agreement.

14. Termination.

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 the Hotel, including, any computer system agreement, or any agreement to manage the 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 and may remove the listing of the Hotel from any directories we publish, and from any advertising we publish, or to remove or suspend you from the Reservation System immediately without notice to you. We will have the right to divert reservations previously made for the Hotel to other Brand 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 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 the Hotel and diverted to other Brand 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 the Hotel from our directories, advertising or the 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, 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) Generally fails to pay your or its debts as they become due, including to the lessor of the Hotel 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;

(b) 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;

(c) Take any corporate or other action to authorize any of the actions set forth above in Section 14.b(2)(a) or 14.b(2)(b);

(d) 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;

(e) Allow an attachment to remain on all or a substantial part of the Hotel or of your or its assets for 30 days;

(f) 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;

(g) Fail to obtain possession, or lose possession or the right to possession of all or a significant part of the Hotel or Hotel site, whether through foreclosure, loss of lease, or for other reasons apart from those described in Section 12;

(h) Fail to continue to identify the Hotel to the public as a Brand Hotel, or abandons the operation of the Hotel by failing to operate the 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 the 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;

(i) Contest in any court or proceeding our ownership of the Brand or any part of the Brand, or the validity of any of the Network Marks;

(j) 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;

(k) Any of the owners of a controlling Equity Interest is discovered to have been convicted of a felony that you did not disclose to us in your application for this Agreement (or any other offense or conduct if we reasonably determine it is likely to adversely reflect upon or affect the Hotel, the Brand, us or any Entity);

(l) Conceal revenue, maintain false books and records of accounts, submit false reports or information to us or otherwise attempt to defraud us;

(m) Become a Competitor (as defined in Section 6.a.(24));

(n) Transfer any interest in this Agreement or in the Hotel other than in the transaction that we have approved (unless the transfer is of a type described in Section 11 where our approval or consent is not required); or

(o) Do not purchase or maintain insurance required by this Agreement, or do not reimburse us for our purchase of insurance on its behalf.

(3) Information involving you or your affiliates, whether provided by you under Section 6.a.(29) or obtained through our own investigation, discloses facts concerning you or your affiliates, including your respective officers, directors, shareholders, partners or members, or the Hotel, or title to the property on which the Hotel is constructed or any other property used by the Hotel, which, in our reasonable opinion is likely to adversely reflect upon, any gaming licenses or permits held by us or the Entities or the then current stature of any of us or the Entities with any gaming commission, board, or similar governmental or regulatory agency, or our reputation or business or the reputation or business of any of the Entities;

(4) We make a reasonable determination that continued operation of the Hotel by you will result in an imminent danger to public health or safety; or

(5) 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. **Liquidated Damages upon Termination.** If we terminate this Agreement under Section 14.a. or 14.b. above or you terminate this Agreement without cause, you acknowledge that your default will cause substantial damage to us, the actual amount of which will be difficult to determine. Therefore, you agree that if we terminate this Agreement under Section 14.a. or 14.b. as a result of your default or breach of this Agreement, or if you unilaterally terminate this Agreement without cause (which is not authorized and which would be a material breach of this Agreement), then upon termination you must pay us a lump-sum payment equal to the sum of the following:

- (1) All amounts owed to us up to the date of termination; and
- (2) As liquidated damages, a “**Termination Fee**” determined by multiplying the number of Guest Rooms in the Hotel (as set forth in the Rider) by \$2,500.

The Termination Fee is intended to compensate us only for the value lost in Brand Fees as a result of your failure to operate the Hotel for the License Term, and you acknowledge that the Termination Fee is a reasonable estimate of those damages. You further agree that you remain liable for all other obligations and claims under this Agreement, including payments due under annual or multi-year commitments (whether incurred by you directly or by us on your behalf), any unpaid start-up or connectivity fees, and all obligations following termination under Sections 5.c., 5.d., 8.c., and 14.d. and Section 9 and liabilities arising out of your breach or default.

d. **De-identification of Hotel Upon Termination.** Upon expiration or termination of this Agreement for any reason, you will immediately stop holding yourself out to the public as a Brand Hotel, you will not identify the hotel as a former Brand Hotel or yourself as our former franchisee, you will take the action required to cancel or assign all fictitious or assumed name registrations relating to the Proprietary Marks, and you will take whatever action is necessary to assure that no use is made of any part of the Brand (including the Proprietary Marks or any individual feature of any of the Brand or Network), all forms of advertising and other indicia of operation as a Brand Hotel, and will discontinue use of all distinguishing indicia of Brand Hotels, including such indicia on exterior and interior signs, stationery, operating equipment and supplies, Internet sites, brochures and other promotional material at or in connection with the Hotel, Brand, or Network. You will immediately cease using or operating any Online Presence related to the Hotel or the Network Marks, and take any action as may be required to disable such Online Presence, or transfer exclusive control and access of such Online Presence to us, as we determine at our sole discretion. You will at our direction return to us or destroy the Brand Manual, Information and all other proprietary materials, remove all distinctive Brand and Network features of the Hotel, including the primary freestanding sign (if applicable) down to the structural steel, and take all other actions (“**De-identification Actions**”) required to preclude any possibility of confusion on the part of the public that the Hotel is still using all or any part of the Brand or is otherwise holding itself out to the public as a Brand Hotel, including ceasing participation in any Brand programs and payment of any amounts owing in connection with participation in such Brand programs as required under the then existing rules of any such Brand program. You will comply with all other Brand Standards we periodically establish (and all applicable laws) in connection with the de-identification of the Hotel, including as relates to disposing of Personal Information, in any form, in your possession or the possession of your employees. If within 30 days after the termination or expiration of this

Agreement, you fail to comply with this Section, we or our agents, at your expense, may enter the premises of the Hotel to perform the De-identification Actions 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 the De-Identification Actions, plus all expenses that we incur, upon demand. If you are selling or otherwise transferring the Hotel to a third-party who does not desire to operate the Hotel in the Brand using the Proprietary Marks, you must complete all of the De-identification Actions immediately prior to closing on the sale of the Hotel. If you fail to take all De-identification Actions, we and the Entities will be entitled to recover all losses, costs, expenses and damages caused by that failure. We and the Entities 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.

15. Dispute Resolution.

a. **Governing Law, Venue and Jurisdiction.** Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§ 1051 et seq.), this Agreement and any related agreement, all transactions contemplated by this Agreement and any related agreement, and the relationship created by this Agreement, as well as our offer, sale, or negotiation of a franchise under the Brand or the relationship of the parties arising from the franchise or from entering this Agreement, are governed by, and must be construed and enforced in accordance with, the internal laws of the Commonwealth of Massachusetts, without regard to its conflict-of-laws principles. NOTWITHSTANDING THE FOREGOING, ANY STATUTES OF THE COMMONWEALTH OF MASSACHUSETTS REGULATING THE OFFER OR SALE OF FRANCHISES, BUSINESS OPPORTUNITIES, OR SIMILAR INTERESTS OR GOVERNING THE RELATIONSHIP BETWEEN OR AMONG THE PARTIES TO THIS AGREEMENT, OR BETWEEN US AND YOUR GUARANTORS AND OWNERS, IF ANY, DO NOT APPLY UNLESS THEIR RESPECTIVE JURISDICTIONAL REQUIREMENTS ARE MET INDEPENDENTLY WITHOUT REFERENCE TO THIS SECTION. Any claims, controversies, disputes or actions must be brought in the federal court nearest to our or, as applicable, our successor's or assign's then current principal place of business (currently, Newton, Massachusetts); provided, that, if the federal court lacks jurisdiction, then such claims, controversies, disputes or actions must be brought in the state court nearest to our or, as applicable, our successor's or assign's then current principal place of business (currently, Newton, Massachusetts), unless otherwise mutually agreed by the parties. You irrevocably submit to the jurisdiction of such courts and waive any objection you might have to either the jurisdiction of or venue in such courts. However, with respect to any action for injunctive relief, the parties may bring such action in any court of competent jurisdiction.

b. **Attorneys' Fees and Expenses.** The prevailing party in any legal action or other proceeding will recover from the non-prevailing party all fees, costs and expenses (including reasonable attorneys' fees and costs through all trial and appellate levels and proceedings). If we are required to 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.

c. **Waiver of Exemplary and Punitive Damages.** Except for your obligations to indemnify us for third party claims under Section 9, we and you (and your Affiliates and Equity 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.

d. **Jury Waiver.** THE PARTIES MUTUALLY AND WILLINGLY WAIVE THE RIGHT TO A TRIAL BY JURY OF ANY AND ALL CLAIMS MADE BETWEEN THEM WHETHER NOW EXISTING OR ARISING IN THE FUTURE WHETHER ARISING FROM OR RELATED TO THE SALE, NEGOTIATION, EXECUTION, OR PERFORMANCE OF THE TRANSACTIONS TO WHICH THIS AGREEMENT RELATES.

e. **Class Action Bar and Limitations of Claims.** The parties agree that claims of any other party or parties shall not be joined with any claims asserted in any action or proceeding between you and us. 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. Except for claims arising from your non-payment or underpayment of amounts owed us

pursuant to this Agreement, any and all claims arising out of or relating to this Agreement or our relationship with you as franchisor and franchisee are barred unless a judicial or arbitration proceeding, as applicable, is commenced in accordance with this Agreement within one year after the date on which the party asserting such claim knew or should have known of the facts giving rise to such claims. You and we are bound by the provisions of any limitation period of time in which claims must be brought under the previous sentence or applicable law, whichever expires earlier.

16. Relationship of Parties.

a. **No Agency Relationship.** You are an independent contractor. Neither of us is the legal representative or agent of the other, or has the power to obligate (or has the right to direct or supervise the daily affairs of) the other for any purpose. You expressly acknowledge that we have a business relationship based entirely on, and defined by, the express provisions of this Agreement and that no partnership, joint venture, joint employer, agency, fiduciary or employment relationship is intended or created by reason of this Agreement. Neither we nor any Entity will have any responsibility to any person for any debts, liabilities, damages, claims or expenses related to the establishment, construction or operation of the Hotel or arising out of or related to your policies, procedures, practices or alleged practices in the operation of the Hotel or any other business conducted at the Hotel. You are solely responsible for all employment decisions with regard to employees, agents and independent contractors that you may hire to assist in the operation of the Hotel. You assume all liability for such employees, agents and independent contractors. You agree that any employee, agent or independent contractor that you hire will be your 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 comply with all applicable local, state and federal laws governing your employees and will at all times hold us free, clear and harmless from all actions, claims and expenses arising out of said laws, bylaws, ordinances, rules and regulations that are or may be promulgated in connection therewith. You assume full responsibility for the payment of all payroll taxes, use, sales, income or other form of taxes, fees, licenses, excises, or payments required by any city, county, federal or state legislation which is now or may during the License Term be enacted as to all persons employed by you.

b. **Notices to Public Concerning Your Independent Status.** You will take all steps reasonably necessary to minimize the chance of a claim being made against us for anything that occurs at the Hotel, or for the acts or omissions of you or anyone associated or affiliated with you or the Hotel (including your Affiliates and Equity Owners), including steps mandated by us under the Brand Standards. You will not incur any obligation or indebtedness on our behalf. All contracts for the Hotel's operations and services at the Hotel will be in your name or in the name of your management company. You will not enter into or sign any contracts in our name or using the name of the Proprietary Marks or any of the Network Marks or any acronyms or variations on same. You will disclose in all dealings with suppliers and third parties that you are an independent entity and that we have no liability for your debts. You will take such affirmative action as we request to disclose to the public that you are independent from us, including displaying signage at your front desk that identifies the name of the owner of the Hotel and that you operate it under a franchise from us, which signage must conform to our Brand Standards.

17. Miscellaneous.

a. **Severability and Interpretation.** The remedies provided in this Agreement are cumulative. These remedies are not exclusive of any other remedies to which you or we may be entitled in case of any breach or threatened breach of the terms and provisions hereof. If any provision of this Agreement is held to be unenforceable, void or voidable, that provision will be ineffective to the extent of the prohibition without in any way invalidating or affecting the remaining provisions of this Agreement, and all remaining provisions will continue in effect. If any provision of this Agreement is held unenforceable due to its scope, but may be made enforceable by limiting its scope, the provision will be considered amended to the minimum extent necessary to make it enforceable. This Agreement will be interpreted without interpreting any provision in favor of or against either you or us by reason of the drafting of the provision, or either of our positions relative to the other. Any covenant, term or provision of this Agreement that provides for continuing obligations after the expiration or termination of this Agreement will survive any expiration or termination. To the extent that any provision of this Agreement is void or is inconsistent with any applicable state statute,

such as any applicable statute that provides for termination notice periods that are longer than those required by this Agreement, such applicable statute will supersede such provision of this Agreement.

b. **Exclusive Benefit.** This Agreement is exclusively for our and your benefit, and none of the obligations of either you or us in this Agreement will run to, or be enforceable by, any other party (except for covenants in favor of the Entities, which covenants will run to and be enforceable by the Entities or their successors and assigns), or give rise to liability to a third party, except as otherwise specifically set forth in this Agreement.

c. **Entire Agreement.** You and we acknowledge that we want all terms of this business relationship defined in this written agreement, and that neither you nor we want to enter into a business relationship with the other in which any terms or obligations are subject to any oral statements or in which oral statements serve as the basis for creating rights or obligations different than or supplementary to the rights and obligations set forth in this Agreement. Therefore, you and we agree that this Agreement and its attachments will be construed together and will supersede and cancel any prior or contemporaneous discussions or writings (whether described as representations, inducements, promises, agreements or by any other term) between you and us, except for any representations we have made in the FDD. You and we each agree that you and we placed, and will place, no reliance on any such discussions or writings, except that you are entitled to rely on representations we made in the FDD. You agree that no claims, representations or warranties of earnings, sales, profits, success or failure of the Hotel have been made to you. This Agreement and its attachments is the entire agreement between you and us and contains all of the terms, conditions, rights and obligations between you and us with respect to the Hotel and any other aspect of the relationship between you and us. No change, modification, amendment or waiver of any of the provisions of this Agreement will be effective and binding upon you or us unless it is in writing, specifically identified as an amendment to this Agreement and signed by one of your and our authorized officers. If any provision of this Agreement is inconsistent with the Brand Manual, the provisions of this Agreement will prevail. No failure by us or by any Entity to exercise any power given us under this Agreement or to insist on strict compliance by you with any of your obligations, and no custom or practice at variance with the terms of this Agreement, will be considered a waiver of our or any Entity's right to demand exact compliance with the terms of this Agreement.

d. **Consent; Business Judgment.** Wherever our consent or approval is required in this Agreement, unless the provision specifically indicates otherwise, we have the right to withhold our approval at our sole and unfettered discretion taking into consideration our assessment of the long-term interests of the Brand overall. You and we recognize, and any arbitrator or judge is affirmatively advised that if those decisions are supported by our business judgment, neither an arbitrator nor a judge nor any other person reviewing those decisions will substitute his or her judgment for our judgment. When the terms of this Agreement specifically require that we not unreasonably withhold our approval or consent, if you are in default or breach under this Agreement, any withholding of our approval or consent will be considered reasonable. Our approvals and consents will not be effective unless given in writing. In no event may you make any claim for money damages based on any claim that we have unreasonably withheld or delayed any consent or approval to a proposed act by you under the terms of this Agreement. You also may not claim damages by way of set-off, counterclaim or defense for our withholding of consent. Your sole remedy for the claim will be an action or proceeding to enforce the provisions of this Agreement by specific performance or by declaratory judgment. Our approvals are related only to our exercise of our approval rights under this Agreement and do not imply, for example, that you have complied with applicable law or your obligations to any third party.

e. **Notices.** All notices required or permitted under this Agreement must be in writing and will be deemed delivered: (i) on the date delivered if by personal delivery; (ii) on the date of transmission if by e-mail (as long as the sender confirms the e-mail by delivering an original confirmation copy by mail or expedited delivery service, in accordance with this Section, within three days after transmission); (iii) on the next business day after being placed in the hands of a nationally-recognized commercial courier service for next business day delivery; or (iv) on the date upon which the return receipt is signed or delivery is refused if mailed by registered or certified mail (postage prepaid), return receipt requested. Notice to us must be sent to Sonesta RL Hotels Franchising Inc., Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458, Attention: General Counsel. Notice to you will be made to the address provided in the Rider, or such other address of which you have notified us in accordance with this Section, provided that we may also provide notice to you at the Hotel address. For any notice that we send to you via

nationally-recognized commercial courier service in accordance with this Section 17.e, we may require you to reimburse us for shipping expenses.

f. **General Release.** You, on behalf of yourself and your current and former parents, subsidiaries and affiliates, and each such foregoing person's or entity's respective heirs, spouses, administrators, executors, owners, officers, directors, agents, representatives, successors and assigns release, remise, acquit and forever discharge us and the Entities and each such foregoing entity's respective current and former owners, shareholders, partners, officers, directors, employees, agents, representatives, successors and assigns of and from any and all actions, claims, causes of action, suits, rights, debts, liabilities, accounts, agreements, covenants, contracts, promises, warranties, judgments, executions, demands, damages, costs and expenses, whether known or unknown at this time, of any kind or nature, absolute or contingent, at law or in equity, on account of any matter, cause or thing whatsoever that has happened, developed or occurred before you sign and deliver this Agreement to us; provided, that, this release does not apply to claims arising from the representations we made in the FDD that we furnished to you. This release will survive the termination of this Agreement.

If the Hotel you operate under this 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 us or the other released 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 us and the other released 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.

g. **Estoppel Certificate.** Whenever we reasonably request it, you will deliver to us an estoppel certificate in the form we require as to the matters described in this Agreement.

h. **Descriptive Headings.** The descriptive headings in this Agreement are for convenience only and will not control or affect the meaning or construction of any provision in this Agreement.

i. **Representations and Warranties; Further Assurances.** You warrant, represent, acknowledge and agree that:

(1) All statements made by you (or your owners) in the application you submitted to us in anticipation of this Agreement and all other documents and information you submitted to us are true, correct and complete as of the date of this Agreement and that you will continue to update them so that they are always true, correct and complete;

(2) If you are an entity, you are duly organized or formed, validly existing, and in good standing under the laws of your state of incorporation or formation;

(3) If you are an entity, the person(s) who executed this Agreement on your behalf was duly authorized to do so;

(4) You have the full legal power and authority to enter into this Agreement, and if you are an entity, you have been duly authorized by all requisite corporate or other entity governance action to execute this Agreement, and to operate the Hotel at the approved premises;

(5) You (or any legal entity that you own) are not party to any agreement with any third-party, which grants you (or any legal entity that you own) the right to operate a business at the premises of the Hotel under a brand or trademark or service mark other than the Proprietary Marks, except for any lease that you may have previously entered into to obtain the rights to occupy the premises, nor will you be breaching any other agreement to which you are a party by entering into this Agreement;

(6) This Agreement constitutes the legal, valid and binding obligation of you, enforceable against you in accordance with the terms of this Agreement;

(7) You either have a valid and enforceable leasehold interest in the premises of the Hotel and the term of the lease is at least as long as the term of this Agreement, or you own the premises of the Hotel in fee simple, and are in lawful possession of the premises;

(8) None of the persons that owns an interest in the Hotel, directly or beneficially, is a "Specially Designated National" or "Blocked Person." "**Specially Designated National**" or "**Blocked Person**" means (i) a person designated by the U.S. Department of Treasury's Office of Foreign Assets Control from time to time as such status, (ii) a person described in Section 1 of U.S. Executive Order 13224, issued September 23, 2001, or (iii) a person otherwise identified by government or legal authority as a person with whom we or our affiliates are prohibited from transacting business. Currently a list of such designations is published under the internet website address <http://sdnsearch.ofac.treas.gov/>. The text of the Executive Order is published at <https://www.state.gov/executive-order-13224/>;

(9) You received from us the FDD and all exhibits and supplements thereto at least 14 calendar days before signing this Agreement or any other binding agreement with, or making any payment to, our affiliates or us in connection with the sale of the License;

(10) Your success in owning and operating the Hotel is speculative and will depend on many factors. Such factors include, to a large extent: your independent business ability; the quality and location of the Hotel; your experience in operating a hotel; your efforts at local sales and marketing; and the level of customer service provided by you and your staff to guests of the Hotel. Except as specifically included in this Agreement, no representations or promises, express or implied, have been made by us or any of our officers, directors, employees, brokers, or representatives, to induce you to enter into this Agreement. No employee, officer, director, broker or representative of ours is authorized to do otherwise;

(11) In all of your dealings with our owners, officers, directors, employees, and representatives, such individuals act only in their representative capacity and not in an individual capacity. You further acknowledge that this Agreement and all business dealings between you and such individuals as a result of this Agreement are solely between you and us; and

(12) If you are converting an existing hotel to a hotel that will be operated under the Brand, you represent and warrant to us that your execution of this Agreement and conversion of your existing hotel to a Hotel will not violate or constitute a breach of any of your, your affiliates' or owners' obligations, covenants or agreement to or with any third-party.

From time to time during the term of this Agreement, upon our request you shall duly execute, acknowledge and deliver all such further instruments and documents we request to demonstrate that each of the foregoing representations was accurate at the time this Agreement was signed and continues to be accurate at the time such further assurance is provided, including, without limitation, delivering a copy of your current lease agreement, deed, and governing documents. You hereby indemnify and hold us harmless from any breach of these representations and warranties. These warranties and representations will survive the termination of this Agreement.

j. **Time.** Time is of the essence in this Agreement.

k. **Counterparts.** This Agreement may be signed in counterparts, each of which will be considered an original.

l. **Performance Requirements/Responsibilities.** [Attachment A-1/Attachment A-2], setting forth certain of your performance conditions and requirements, is incorporated by reference and made a part of this Agreement.

m. **Informational Copies.** You acknowledge that we may provide, but are not required to provide, a copy of any information we provide to you concerning the Hotel (such as quality assurance reports and default notices) to the owner or lessor of the Hotel.

n. **Privacy.** You expressly permit us to disclose in our FDD (whether required by law or made available on a voluntary basis) personal information related to you, including your and your owner's names, any address, telephone numbers and facsimile numbers, and sales, revenues, expenses, costs, results of operations and similar information regarding your business, and any information regarding the non-renewal, expiration, or termination of this Agreement.

o. **Management Company.** If the Hotel will be managed by a management company (the "**Management Company**"), the Management Company will sign the Management Company Joinder to this Agreement. 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 the Management Company Joinder to this Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement on the dates noted below, to be effective as of the Effective Date.

US:
SONESTA RL HOTELS FRANCHISING INC.

By: _____
Name: _____
Its: _____
*Date: _____
*(Effective Date of this Agreement)

Address: Two Newton Place
255 Washington Street
Suite 230
Newton, Massachusetts 02458

Attention: Asst. General Counsel - Franchise

E-mail: development@sonesta.com

YOU:
Sign here if you are an **INDIVIDUAL(S)**
(Note: use these blocks if you are an individual or a partnership but the partnership is not a separate legal entity)

Sign here if you are a
**CORPORATION, LIMITED LIABILITY
COMPANY OR PARTNERSHIP**

Signature
Print Name: _____
Date: _____

Signature
Print Name: _____
Date: _____

Signature
Print Name: _____
Date: _____

Signature
Print Name: _____
Date: _____

Print Name of Legal Entity
By: _____
Signature

Print Name: _____
Title: _____
Date: _____

Address: _____

Attention: _____
E-mail: _____

Management Company Joinder

The party signing below is the Management Company and agrees that it is jointly and severally liable with you for the timely and complete performance of all your obligations under this Agreement, except with respect to the actual payment of any amounts due to any third parties, our affiliates or us pursuant to this Agreement (however, the Management Company will be obligated to ensure that such payments are made by you), as it may be modified from time to time (with or without the Management Company's consent), and is bound by all the terms of this Agreement as if it were you under this Agreement.

IN WITNESS WHEREOF, the parties have executed this Joinder as of the Effective Date.

MANAGEMENT COMPANY:

[Management Company Name]

By: _____

Print Name: _____

Its: _____

Date: _____

Schedule 7.g
Booking Fees

Reservation Fees¹:

- Direct Connect: \$3.25 per reservation through the Central Reservations System Direct Connect interfaces to associated onward distribution channels.
- Web and Mobile Direct: \$2.75 per reservation through the Central Reservations System Internet Booking Engine for Web and Mobile Direct reservations.
- IDS: \$4.00 per reservation through the Central Reservations System Internet Distribution System to onward distribution switch or channel manager providers.
- GDS: \$8.00 per reservation through the Central Reservations System for reservations sourced from the Global Distribution Systems.
- Central Reservations Office (Voice): \$7.00 per reservation through the Central Reservations Office.
- Consortia or Travel Management Company (“TMC”): \$3.50 per room night fee for all reservations generated through consortia or TMCs (plus applicable commission). This fee may not apply if the consortia or TMC requires an annual listing fee in lieu of a per room night fee.

Commissions:

Travel Agency Commission Settlement Fees: Up to \$0.85 per financial transaction.

¹ Fees are subject to change. In addition, you must pay any relevant travel agencies a commission on room revenue they generate by booking stays at your Hotel.

ATTACHMENT A-1

PERFORMANCE CONDITIONS - CONVERSION

- A. Consultation.** You or your representative(s) will meet with us to consult and coordinate with the project manager or onboarding specialist we may assign to you.
- B. Work and Purchase Requirement.** If applicable, the PIP is included in this Agreement and incorporated herein by reference. You will perform the renovation and construction work and purchase the items described in the PIP (the “**Renovation Work**”) on or before the Renovation Work Completion Date (as defined in Section D below). The Renovation Work will include your purchase or lease, and installation of all fixtures, equipment, furnishings, furniture, signs, computer terminals and related equipment, supplies and other items which would be required of a new Brand Hotel under the Brand Standards and other equipment, furnishings and supplies as we may require for you to operate the Hotel. You will be responsible for obtaining all necessary licenses, permits and zoning variances required for the Hotel.
- C. Plans and Designs.** Upon our request, you must submit to us your plans, layouts, specifications, and drawings for the Hotel (collectively, the “**Plans**”), and your plans, layouts, specifications and designs for the proposed furnishings, fixtures, equipment and décor of the Hotel (collectively, the “**Designs**”). 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 or Designs, and provide our approval of such Plans or 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 will cause the Renovation Work to be completed in accordance with this Agreement, the Brand Standards and the PIP. You will be solely responsible for obtaining all necessary licenses, permits and zoning variances that may be required for the Renovation Work. You should not rely upon any approval we may provide to you for the Plans or Designs for any purpose whatsoever except compliance with our then prevailing Brand Standards. We may charge you an hourly fee (five hours minimum) to review your Plans and Designs.

You are solely responsible for making certain that the Hotel and the Renovation Work comply in all respects with all Legal Requirements. For purposes of this Agreement, “**Legal Requirements**” means 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 the Hotel and the operation of the Hotel, including environmental, zoning, building, and life safety. We will have the right to, and you will arrange for us to participate in all progress meetings during the Renovation Work, to have access to all contract and construction documents relating to the Hotel and the Renovation Work, and to have access to the Hotel during reasonable business hours to inspect the Hotel, its construction, completion, furnishing and equipping. However, we are not obligated to participate in progress meetings, or inspect the 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 the Hotel or the Renovation Work. Upon completion of the Renovation Work and as a condition to opening of the Hotel, 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.

- D. Commencement; Completion.** You will begin the Renovation Work on or before the date specified on the Rider and will continue the Renovation Work uninterrupted (except to the extent continuation is prevented by events beyond Franchisee’s control, such as acts of God, third party strikes, war, or general governmental restrictions (“**Force Majeure**”)) until it is completed. For purposes of this Section, Force Majeure does not include your own financial inability, inability to obtain financing, inability to obtain permits or any other events unique to you or the Hotel.

Notwithstanding any Force Majeure, or any other matter, the Renovation Work must be completed and the Hotel must be furnished, equipped, and comply with this Agreement no later than the date specified in the Rider (the “**Renovation Work Completion Date**”). If you fail to complete the Renovation Work in accordance with this Agreement on or before the Renovation Work Completion Date and this failure to meet the Renovation Work Completion Date is due solely to Force Majeure, the Pre-Opening Termination Fee (as defined in Section R below) will not be assessed. 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.

- E. Inspection.** During the course of Renovation Work, you and your architect, designer, contractors, and subcontractors will cooperate fully with us for the purpose of permitting us to inspect the Hotel and the Renovation Work in order to determine whether Renovation Work is being done in accordance with this Agreement, the Brand Standards, and the PIP. In addition, you and your contractors, architect and designer will (i) supply us with samples of construction materials, supplies, equipment, materials and reports as we may request and (ii) give our representatives access to the Hotel site and Renovation Work in order to permit us to carry out our inspections.
- F. Progress Reports.** You will submit to us each month (or more frequently if we so request) a report showing progress made toward completing the Renovation Work required in this Agreement.
- G. Acquisition of Equipment, Furnishings, and Supplies.** You will purchase or lease and install all fixtures, equipment, furnishings, furniture, signs, computer terminals and related equipment, supplies and other items we require in order to assure that the Renovation Work is completed under this Agreement.
- H. Cost of Renovation and Equipping.** You will bear the entire cost of the Renovation Work, including the cost of the Plans and Designs, professional fees, licenses, permits, equipment, furniture, furnishings and supplies.
- I. Insurance During Conversion.** In addition to the insurance coverage required under this Agreement, during the course of Renovation Work, you will maintain or will cause the general contractor to maintain builder’s risk coverage for the replacement value of the Hotel, which policies must name us and the Entities as additional insureds. This coverage must be evidenced by an original certificate of insurance, submitted to us at least 30 days before you begin Renovation Work and thereafter any time before a change is made in the coverage. Prior to the Opening Date, you will submit to us a certificate of insurance evidencing the other types of insurance we require under this Agreement.
- J. Limitation of Liability.** We will have no liability or obligation with respect to design and construction of the Hotel. We have furnished to you that portion of the Brand Manual which contains the technical standards and specifications to assist you in completing the Renovation Work. You acknowledge you have studied these standards and specifications and satisfied yourself that the Hotel can be designed, furnished and equipped in accordance with these standards and specifications and that you and your design and construction consultants and contractors have the necessary resources and skills to do so. The Brand Manual does not encompass the architectural, structural, mechanical or electrical safety, adequacy, integrity or efficiency of the design or compliance with applicable Legal Requirements. We do not undertake to approve the Hotel as complying with governmental requirements or as being safe for guests or other third parties and we have no responsibilities in these areas. You must indemnify us with regard to compliance with these matters to the extent provided in Section 9 of this Agreement. The Brand Manual may not be used by you or by any design or construction professional for any hotel project other than the Hotel.
- K. Trademarks.** During the Renovation Work, you will have the right, so long as this Agreement is in effect: (i) to place a sign on the Hotel site, advising the general public that a Brand Hotel is under construction, and you agree, at your sole expense, on or before the date specified in the Rider, to erect, install and maintain in complete working order at the site of the Hotel a large construction sign using the Proprietary Marks and other distinguishing characteristics in accordance with our plans and specifications for Brand Hotels; (ii) to advertise and promote the development and

opening of the Hotel in the media; (iii) to purchase, from vendor(s) approved by us, operating supplies and equipment bearing the Proprietary Marks required for the operation of the Hotel; and (iv) to purchase, from vendor(s) approved by us, and install the permanent signage required for the operation of the Hotel. Once we authorize the Hotel to open as a Brand Hotel, you may use the Proprietary Marks and the Brand in the operation of the Hotel consistent with the terms and conditions of this Agreement. Prior to the Opening Date, you will stop using all other names, symbols, trademarks, service marks or trade logos other than those used and associated with the Brand.

- L. Staffing.** Before the Opening Date, you will, at your cost, hire a staff to operate the Hotel, and train that staff to protect the Proprietary Marks and Brand.
- M. Opening.** You will not open the Hotel unless and until you receive our written authorization to do so. We will only authorize the Hotel to open when we, at our sole discretion, are satisfied that: (i) you have complied with all the terms and conditions set forth in this Agreement; (ii) your staff has received adequate training and instruction; (iii) you have provided us with all requested documentation; and (iv) all fees and charges you owe to us or the Entities have been paid. Opening the Hotel before we authorize you to open will constitute unauthorized use of Proprietary 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 Proprietary Marks, and not as a penalty, \$5,000 per day to compensate us for the damage to Proprietary 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.
- N. Compliance/Investigation.** You will give us at least 15 days advance notice that, in your opinion, you have complied with all the terms and conditions of this Agreement and the Hotel is ready to open. We will use reasonable efforts within 15 days after we receive your notice to inspect the Hotel and to conduct other investigations as we deem necessary to determine whether to authorize the opening of the Hotel, but we will not be liable for delays or loss occasioned by our inability to complete our investigation and to make this determination within the 15 day period. If you fail to pass our initial opening inspection, we may, at our sole discretion, charge you reasonable fees associated with any additional inspections.
- O. Conditional Opening.** Notwithstanding Section M above, we may, at our sole discretion, conditionally authorize you to open and operate the Hotel as a Brand Hotel ("**Conditional Opening**") even though you have not fully complied with the terms of this Agreement, if you are meeting your performance obligations under this Agreement and if you agree to fulfill all remaining terms of this Agreement, including any attachment, on or before the completion date set forth on the Rider, or any extension we approve. Our determination as to whether to authorize a Conditional Opening will be final and binding.
- P. Performance of Agreement.** You agree to satisfy all of the terms and conditions of this Agreement, and to equip, supply, staff and otherwise make the Hotel ready to open under the Brand Standards. As a result of your efforts to comply with the terms and conditions of this Agreement, you will incur significant expense and expend substantial time and effort. You acknowledge and agree that we will have no liability or obligation to you for any losses, obligations, liabilities or expenses you incur if we do not authorize the Hotel to open or if we terminate this Agreement because you have not complied with the terms and conditions of this Agreement.
- Q. Termination Prior to Opening.** Your failure to satisfy the terms of this Agreement, including your failure to begin or complete the Renovation Work in accordance with the Plans, the Brand Standards and our requirements (including the milestone and completion dates) will constitute a material breach of your obligations under this Agreement and will be considered an Event of Default. If an Event of Default occurs before the Opening Date, we may terminate this Agreement if that Event of Default continues for ten days (or longer, if required by law) after notice to you.
- R. Pre-Opening Termination Fee.** If you breach this Agreement and we terminate this Agreement, before you open the Hotel, the parties 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 operation of the Hotel through the License Term. The parties agree that a reasonable estimate of those damages is, and you agree to pay us as compensation for the damages, an amount equal to \$1,200 for each Guest Room of the Hotel (the "**Pre-Opening Termination Fee**").

- S. Termination after Opening of the Hotel.** Termination of this Agreement after the opening of the Hotel will be governed by Section 14 of this Agreement.

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

The parties are executing this Rider on the date set forth in the first paragraph of this Rider.

**US:
SONESTA RL HOTELS FRANCHISING INC.**

By: _____
Name: _____
Its: _____
Date: _____

Address: Two Newton Place
255 Washington Street
Suite 230
Newton, Massachusetts 02458

Attention: Asst. General Counsel - Franchise

E-mail: development@sonesta.com

YOU:
Sign here if you are 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 a
**CORPORATION, LIMITED LIABILITY
COMPANY OR PARTNERSHIP**

Print Name of Legal Entity
By: _____
Signature

Print Name: _____
Title: _____
Date: _____

Address: _____

Attention: _____
E-mail: _____

ATTACHMENT A-2
PERFORMANCE CONDITIONS - NEW DEVELOPMENT

- A. Consultation.** You or your representative(s) will meet with us to consult and coordinate with the project manager or onboarding specialist we may assign to you.
- B. Plans and Designs.** Upon our request, you must submit to us your plans, layouts, specifications, and drawings for the Hotel (collectively, the “**Plans**”), and your plans, layouts, specifications and designs for the proposed furnishings, fixtures, equipment and décor of the Hotel (collectively, the “**Designs**”). 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 or Designs, and provide our approval of such Plans or 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 Construction Work. You will cause the Construction Work to be completed in accordance with this Agreement, the Brand Standards and the PIP. You will be solely responsible for obtaining all necessary licenses, permits and zoning variances that may be required for the Construction Work. You should not rely upon any approval we may provide to you for the Plans or Designs for any purpose whatsoever except compliance with our then prevailing Brand Standards. We may charge you an hourly fee (five hours minimum) to review your Plans and Designs.

You are responsible for making certain that the Hotel complies in all respects with all Legal Requirements. For purposes of this Agreement, “**Legal Requirements**” means 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 the Hotel and the operation of the Hotel, including environmental, zoning, building, and life safety. We will have the right to, and you will arrange for us to participate in all progress meetings during the development and construction of the Hotel, to have access to all contract and construction documents relating to the Hotel, and to have access to the Hotel during reasonable business hours to inspect the Hotel, its construction, completion, furnishing and equipping. However, we are not obligated to participate in progress meetings, or inspect the 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 the Hotel. Upon completion of the construction of the Hotel and as a condition to opening of the Hotel, 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 the Americans with Disabilities Act and its architectural guidelines and all applicable state and local codes for accessible facilities.

- C. Site Control.** Before you begin Construction Work, you must submit to us a copy of the deed or lease to the Hotel site evidencing your legal access to the Hotel site for the full License Term.
- D. The Construction Work.** You agree to take all action necessary to perform the development and construction of the Hotel, renovation, furnishing, equipping, acquisition of supplies and the implementation of the Plans (“**Construction Work**”) all in accordance with this Agreement, and the Brand Standards, within the time frames we specify. You will be solely responsible for obtaining all necessary licenses, permits and zoning variances required for the Construction Work. Before you begin the Construction Work, you will submit to us copies of applicable permits, licenses and zoning variances.
- E. Commencement; Completion.** Construction Work will begin on or before the construction commencement date specified on the Rider (the “**CCD**”), which shall not be more than 12 months from the Effective Date. Your failure to begin construction by the CCD will be an Event of Default, unless we extend the CCD. If you want to request an extension of the CCD, you must submit a written request before the CCD. If we approve the extension, we will set a new CCD. Beginning

Construction Work will mean the excavation and pouring of footings. Once begun, the Construction Work will continue uninterrupted (except to the extent continuation is prevented by events beyond Franchisee's control, such as acts of God, third party strikes, war, or general governmental restrictions ("**Force Majeure**")) until it is completed. For purposes of this Section, Force Majeure does not include your own financial inability, inability to obtain financing, inability to obtain permits or any other events unique to you or the Hotel.

Upon our request, you will promptly provide us with evidence that construction has commenced. Notwithstanding any Force Majeure, or any other matter, Construction Work must be completed and the Hotel must be furnished, equipped, and otherwise made ready to open in accordance with this Agreement no later than the date specified on the Rider (the "**Construction Work Completion Date**"). If you fail to complete the Construction Work in accordance with this Agreement on or before the Construction Work Completion Date and this failure to meet the Construction Work Completion Date is due solely to Force Majeure, the Pre-Opening Termination Fee (as defined in Section S below) will not be assessed. We will have the sole right to determine whether the Construction Work has begun and has been completed in accordance with this Agreement and the Brand Standards.

- F. Inspection.** During the course of Construction Work, you and your architect, engineer, contractors, and subcontractors will cooperate fully with us for the purpose of permitting us to inspect the Hotel site and the Construction Work in order to determine whether Construction Work is proceeding in accordance with this Agreement, and the Brand Standards. In addition, you and your contractors, architect and designer will (i) supply us with samples of construction materials, test borings, corings, supplies, equipment, materials and reports as we may request and (ii) give our representatives access to the Hotel site and Construction Work in order to permit us to carry out our inspections.
- G. Progress Reports.** You will submit to us each month (or more frequently if we so request) a report showing progress made toward completion of the Construction Work required in this Agreement.
- H. Acquisition of Equipment, Furnishings, and Supplies.** You will purchase or lease and install all fixtures, equipment, furnishings, furniture, signs, computer terminals and related equipment, supplies and other items we require in order to prepare the Hotel for opening as a Brand Hotel under this Agreement. After opening, you will replace all these items, at your cost, in accordance with schedules we set in order to assure that the Hotel will meet the Brand Standards for operation we set for the Brand Hotels.
- I. Costs of Construction and Equipping.** You will bear the entire cost of the Construction Work, including the cost of the Plans and Designs, professional fees, licenses, permits, equipment, furniture, furnishings and supplies.
- J. Insurance During Construction.** In addition to the insurance coverage required under this Agreement, during the course of Construction Work, you will maintain or will cause the general contractor to maintain Builder's Risk coverage for the replacement value of the Hotel, which policies must name us and the Entities as additional insureds. This coverage must be evidenced by an original certificate of insurance, submitted to us at least 30 days before you begin Construction Work and thereafter any time before a change is made in the coverage. Prior to the Opening Date, you will submit to us a certificate of insurance evidencing the other types of insurance we require under this Agreement.
- K. Limitation of Liability.** We will have no liability or obligation with respect to design and construction of the Hotel. We have furnished to you that portion of the Brand Manual which contains the technical standards and specifications to assist you in completing the Construction Work. You acknowledge you have studied these standards and specifications and satisfied yourself that the Hotel can be designed, furnished and equipped in accordance with these standards and specifications and that you and your design and construction consultants and contractors have the necessary resources and skills to do so. The Brand Manual does not encompass the architectural, structural, mechanical or electrical safety, adequacy, integrity or efficiency of the design or compliance with applicable Legal Requirements. We do not undertake to approve the Hotel as complying with governmental requirements or as being safe for guests or other third parties and we have no responsibilities in these

areas. You must indemnify us with regard to compliance with these matters to the extent provided in Section 9 of this Agreement. The Brand Manual may not be used by you or by any design or construction professional for any hotel or lodging project other than the Hotel.

- L. Trademarks.** During the planning and Construction Work phases of the Hotel, you will have the right, so long as this Agreement is in effect: (i) to place a sign on the Hotel site, advising the general public that a Brand Hotel is under construction, in accordance with our plans and specifications for Brand Hotels; (ii) to advertise and promote the development and opening of the Hotel in the media; (iii) to purchase, from vendor(s) approved by us, operating supplies and equipment bearing the Proprietary Marks required for the operation of the Hotel; and (iv) to purchase, from vendor(s) approved by us, and install the permanent signage required for the operation of the Hotel. You agree, at your sole expense, upon, or promptly after, you begin construction, to install and maintain a construction sign on the Hotel site using the Proprietary Marks and other distinguishing characteristics, which meets the Brand Standards. Once we authorize the Hotel to open, you may use the Proprietary Marks and the Brand in the operation of the Hotel consistent with the terms and conditions of this Agreement.
- M. Staffing.** Before the Opening Date, you will, at your cost, hire a staff to operate the Hotel, and train that staff to protect the Proprietary Marks and Brand.
- N. Opening.** You must complete construction of the Hotel and open for business within 24 months of the Effective Date. However, you will not open the Hotel unless and until you receive our written authorization to do so. We will only authorize the Hotel to open when we, at our sole discretion, are satisfied that: (i) you have complied with all the terms and conditions set forth in this Agreement; (ii) your staff has received adequate training and instruction; (iii) you have provided us with all requested documentation; and (iv) all fees and charges you owe to us or the Entities have been paid. Opening the Hotel before we authorize you to open will constitute unauthorized use of Proprietary 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 Proprietary Marks and not as a penalty, \$5,000 per day to compensate us for the damage to Proprietary Marks. You also agree to reimburse us for our costs, including attorneys' fees, incurred in enforcing our rights. These liquidated damages for damages to Proprietary Marks do not limit any other remedies we may have, at law or in equity.
- O. Compliance/Investigation.** You will give us at least 15 days advance notice that, in your opinion, you have complied with all the terms and conditions of this Agreement and the Hotel is ready to open. We will use reasonable efforts within 15 days after we receive your notice to inspect the Hotel and to conduct other investigations as we deem necessary to determine whether to authorize the opening of the Hotel, but we will not be liable for delays or loss occasioned by our inability to complete our investigation and to make this determination within the 15 day period. If you fail to pass our initial opening inspection, we may, at our sole discretion, charge you reasonable fees associated with any additional inspections.
- P. Conditional Opening.** Notwithstanding Section N above, we may, at our sole discretion, conditionally authorize you to open and operate the Hotel as a Brand Hotel ("**Conditional Opening**") even though you have not fully complied with the terms of this Agreement, if you are meeting your performance obligations under this Agreement and if you agree to fulfill all remaining terms of this Agreement, including any attachment, on or before the completion date set forth on the Rider, or any extension we approve. Our determination as to whether to authorize a Conditional Opening will be final and binding.
- Q. Performance of Agreement.** You agree to satisfy all of the terms and conditions of this Agreement, and to equip, supply, staff and otherwise make the Hotel ready to open under the Brand Standards. As a result of your efforts to comply with the terms and conditions of this Agreement, you will incur significant expense and expend substantial time and effort. You acknowledge and agree that we will have no liability or obligation to you for any losses, obligations, liabilities or expenses you incur if we do not authorize the Hotel to open or if we terminate this Agreement because you have not complied with the terms and conditions of this Agreement.

- R. Termination Prior to Opening.** Your failure to satisfy the terms of this Agreement, including your failure to begin or complete the Construction Work in accordance with the Plans, the Brand Standards and our requirements (including the milestone and completion dates) will constitute a material breach of your obligations under this Agreement and will be considered an Event of Default. If an Event of Default occurs before the Opening Date, we may terminate this Agreement if that Event of Default continues for ten days (or longer, if required by law) after notice to you.
- S. Pre-Opening Termination Fee.** If you breach this Agreement and we terminate this Agreement before you open the Hotel, the parties 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 operation of the Hotel through the License Term. The parties agree that a reasonable estimate of those damages is, and you agree to pay us as compensation for the damages, an amount equal to \$3,600 for each Guest Room of the Hotel (the “**Pre-Opening Termination Fee**”).
- T. Termination after Opening of the Hotel.** Termination of this Agreement after the opening of the Hotel will be governed by Section 14 of this Agreement.

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

The parties are executing this Rider on the date set forth in the first paragraph of this Rider.

**US:
SONESTA RL HOTELS FRANCHISING INC.**

By: _____
Name: _____
Its: _____
Date: _____

Address: Two Newton Place
255 Washington Street
Suite 230
Newton, Massachusetts 02458

Attention: Asst. General Counsel - Franchise

E-mail: development@sonesta.com

YOU:
Sign here if you are 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 a
**CORPORATION, LIMITED LIABILITY
COMPANY OR PARTNERSHIP**

Print Name of Legal Entity
By: _____
Signature

Print Name: _____
Title: _____
Date: _____

Address: _____

Attention: _____
E-mail: _____

ATTACHMENT B
RIDER TO FRANCHISE AGREEMENT

Effective Date: The date signed by Franchisor below

Opening Date: As defined in Section 1.m of this Agreement; anticipated to be _____ but in no event later than _____

Franchisor Name: Sonesta RL Hotels Franchising Inc.

Type of Hotel: GuestHouse Extended Stay

Initial Approved Hotel Name (Trade Name): _____

Franchisee Name and Address (Principal Correspondent):

Address of Hotel:

Initial Number of Approved Guest Rooms:

Plans Submission Dates: As provided in the PIP attached as Exhibit [___]

Construction Commencement Date: Construction shall commence on or after the Effective Date and Renovation Work (as defined in [Attachment A-1/Attachment A-2]) shall be completed according to the completion deadlines set forth herein and in the PIP. Franchisee agrees, as a condition of this Agreement, to undertake a complete interior and exterior renovation of the Hotel, and will work with Franchisor's brand manager and other personnel to ensure that the Plans and Designs and Renovation Work for the Hotel meet Franchisor's Brand Standards, including our Signature Moments (including those identified in the PIP, as well as in the Brand Manual); are approved in advance by Franchisor; and are completed to Franchisor's satisfaction prior to the Opening Date. The Renovation Work will include but not be limited to those items identified in the PIP (with the understanding that the failure to include any Signature Moments or Brand Standards in the PIP shall not preclude Franchisor's ability to require them as part of the Renovation Work or otherwise require them prior to the Opening Date).

Expiration of License Term: **At midnight on the day prior to the 20th year anniversary of the Opening Date.**

Additional Requirements/Special Provisions:

- 1. In no event shall the Opening Date be earlier than completion of the applicable PIP items nor later than _____. If, for any reason you have not opened the Hotel as a Brand Hotel or completed the applicable portions of the PIP by _____, and we have not consented to a delay, a breach of this Agreement shall exist. Notwithstanding the foregoing, you may request an extension of the Opening Date of up to 90 days by providing written notice to us. We may grant your extension at our sole discretion but if we deny the extension we will terminate this Agreement in accordance with the terms and conditions set forth in this Agreement. Notwithstanding anything to the contrary in this Agreement, in the event you fail to complete all the Renovation Work described in the PIP within the times provided for therein, any such failure shall be an Event of Default and Franchisor shall have all remedies available to it under this Agreement.**

2. Franchisor’s offer and acceptance of this Agreement is conditioned upon execution and delivery by each of your owners (if you are a legal entity) of an unconditional and unlimited Guaranty of Franchise Agreement of even date herewith on a form acceptable to us. Such guarantors shall be jointly and severally liable for the obligations under this Agreement.

Your Ownership Structure:

<u>Name (Shareholder, Partner, Member, and Manager)</u>	<u>Nature of Ownership Interest</u>	<u>% Interest</u>
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The parties are executing this Attachment B on the date set forth in the first paragraph of the Effective Date of the Franchise Agreement.

**US:
SONESTA RL HOTELS FRANCHISING INC.**

By: _____
Name: _____
Its: _____
Date: _____

Address: Two Newton Place
255 Washington Street
Suite 230
Newton, Massachusetts 02458

Attention: Asst. General Counsel - Franchise

E-mail: development@sonesta.com

YOU:
Sign here if you are an **INDIVIDUAL(S)**
(Note: use these blocks if you are an individual or a partnership but the partnership is not a separate legal entity)

Sign here if you are a
**CORPORATION, LIMITED LIABILITY
COMPANY OR PARTNERSHIP**

Signature
Print Name: _____
Date: _____

Print Name of Legal Entity
By: _____
Signature

Signature
Print Name: _____
Date: _____

Print Name: _____
Title: _____
Date: _____

Signature
Print Name: _____
Date: _____

Address: _____

Signature
Print Name: _____
Date: _____

Attention: _____
E-mail: _____

EXHIBIT C

GUARANTY AND ASSUMPTION OF OBLIGATIONS

Guaranty and Assumption of Obligations

THIS DOCUMENT AFFECTS AND WAIVES IMPORTANT RIGHTS OF THE PERSONS AND ENTITIES SIGNING IT.

THIS GUARANTY AND ASSUMPTION OF OBLIGATIONS IS GIVEN as of _____, 20____, by _____

_____ (the "**Guarantor**").

1. In consideration of, and as an inducement to, the execution of that certain Franchise Agreement of even date[, that certain Initial Fee Promissory Note of even date and that certain Development Incentive Promissory Note of even date] (each as amended, modified, restated or supplemented from time to time, collectively the "**Agreement(s)**") by Sonesta RL Hotels Franchising Inc. (the "**Franchisor**"), and _____ ("**Franchisee**"), each of the undersigned hereby personally and unconditionally (a) guarantees to Franchisor, and its successors and assigns, for the term of the Agreement(s) and as provided in the Agreement(s), that Franchisee shall 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.

2. Guarantor hereby waives the rights or benefits otherwise provided to sureties or guarantors under any state or federal law. For the avoidance of doubt, each of the undersigned waives: (a) acceptance and notice of acceptance by Franchisor of the foregoing undertakings; (b) notice of demand for payment of any indebtedness or nonperformance of any obligations guaranteed; (c) protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations guaranteed; and (d) any right he/she may have to require that an action be brought against Franchisee or any other person as a condition of liability. This Guaranty is absolute and unconditional.

3. Guarantor hereby consents and agrees that:

(a) Guarantor's liability under this undertaking shall be direct, immediate, and independent of the liability of, and shall be joint and several with, Franchisee and any other guarantors of Franchisee;

(b) Guarantor shall render any payment or performance required under the Agreement(s) upon demand if Franchisee fails or refuses punctually to do so;

(c) Guarantor's liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Franchisor may grant to Franchisee or to any other person, including the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which shall in any way modify or amend this guaranty, which shall be continuing and irrevocable during the term of each Agreement;

(d) This undertaking will continue unchanged by the occurrence of any bankruptcy with respect to Franchisee or any assignee or successor of Franchisee or by any abandonment of the Agreement(s) by a trustee of Franchisee. Neither the Guarantor's 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 Franchisee 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;

(e) Franchisor may proceed against Guarantor and Franchisee jointly and severally, or Franchisor may, at its option, proceed against Guarantor, without having commenced any action, or having obtained any judgment against Franchisee. Guarantor hereby waives the defense of the statute of limitations in any action hereunder or for the collection of any indebtedness or the performance of any obligation hereby guaranteed;

(f) Franchisor and Franchisee may modify the Agreement(s) without Guarantor's consent; and

(g) Guarantor agrees to pay all reasonable attorneys' fees and all costs and other expenses incurred in any collection or attempt to collect amounts due pursuant to this undertaking or any negotiations relative to the obligations hereby guaranteed or in enforcing this undertaking against Guarantor.

4. Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§ 1051 et seq.) or the United States Arbitration Act (9 U.S.C. §§ 1 et seq.), this Guaranty and the relationship created by this Guaranty are governed by, and must be construed and enforced in accordance with, the internal laws of the Commonwealth of Massachusetts, without regard to its conflict-of-laws principles. Any claims, controversies, disputes or actions must be brought in the federal court nearest to Franchisor's or, as applicable, its successor's or assign's then current principal place of business (currently, Newton, Massachusetts); provided, that, if the federal court lacks jurisdiction, then such claims, controversies, disputes or actions must be brought in state court nearest to Franchisor's or, as applicable, its successor's or assign's then current principal place of business (currently, Newton, Massachusetts), unless otherwise mutually agreed by the parties. Guarantor irrevocably submits to the jurisdiction of such courts and waives any objection he/she might have to either the jurisdiction of or venue in such courts. However, with respect to any action for injunctive relief, the parties may bring such action in any court of competent jurisdiction.

5. Guarantor acknowledges and agrees that no failure or delay on Franchisor's part in exercising any power or privilege hereunder will impair any such power, right, or privilege or be construed as a waiver of or acquiescence therein.

6. Guarantor acknowledges that Guarantor has had the opportunity to review the matters discussed and contemplated by the Agreement(s), including the remedies Franchisor may pursue against Franchisee in the event of a default under the Agreement(s) and Franchisee's financial condition and ability to perform under the Agreement(s). Guarantor further agrees to keep Franchisor fully informed on all aspects of Franchisee's financial condition and the performance of Franchisee's obligations to Franchisor, and acknowledges and agrees that Franchisor has no duty to disclose to Guarantor any information pertaining to Franchisee.

7. Upon Franchisor's request, Guarantor agrees to promptly deliver to Franchisor complete and current financial statements and tax returns and such other financial information about Guarantor as Franchisor may reasonably request.

8. No terms or provisions of this Guaranty may be changed, waived, revoked, or amended without Franchisor's prior written consent. Should any provision of this Guaranty be

determined by a court of competent jurisdiction to be unenforceable, all of the other provisions will remain effective. This Guaranty embodies the entire agreement among the parties hereto with respect to the matters set forth herein and supersedes all prior agreements among the parties with respect to the matters set forth herein. No course of prior dealing among the parties, no usage of trade, and no parole or extrinsic evidence of any nature will be used to supplement, modify, or vary any of the terms hereof. There are no conditions to the full effectiveness of this Guaranty.

9. GUARANTOR HEREBY WAIVES HIS/HER RIGHT TO A TRIAL BY JURY WITH RESPECT TO THE ENFORCEMENT OF THIS GUARANTY. THIS WAIVER WILL APPLY TO ALL CAUSES OF ACTION THAT ARE OR MIGHT BE INCLUDED IN SUCH ACTION, INCLUDING BUT NOT LIMITED TO CLAIMS RELATING TO THE ENFORCEMENT OR INTERPRETATION OF THIS GUARANTY, ALLEGATIONS OF STATE OR FEDERAL STATUTORY VIOLATIONS, FRAUD, MISREPRESENTATION, OR SIMILAR CAUSES OF ACTION, AND IN CONNECTION WITH ANY LEGAL ACTION INITIATED FOR THE RECOVERY OF DAMAGES ARISING UNDER THIS GUARANTY.

10. 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, accountholder or beneficiaries or otherwise, for so long as such delinquency exists, subject to applicable law.

11. Miscellaneous.

(a) If there is more than one Guarantor named herein, any reference to Guarantor will mean any one and all of them and the singular will include the plural.

(b) Each Guarantor hereby jointly and severally holds harmless, and agrees to defend, protect, and indemnify Franchisor from any actions, causes of action, liabilities, damages, losses, and fees (including attorneys' fees) and all other claims of every nature which may arise as a result of any dispute between or among any of Guarantor and any other persons or entities.

(c) Franchisor may assign this Guaranty and the Agreement(s) without in any way affecting Guarantor's liability. This Guaranty will inure to the benefit of Franchisor and its successors and assigns and will bind Guarantor and Guarantor's heirs, executors, administrators, successors, and assigns.

(d) Any notices to be made hereunder will be in writing and will be effective on the earlier of (i) the day it is personally delivered; (ii) on the next business day after being placed in the hands of a nationally recognized commercial courier service for next business day delivery; or (iii) the third business day after it is sent by first class or certified mail. Notices to Franchisor must be sent to Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458, Attn: General Counsel, or such other address of which Guarantor has been notified. Notices to Guarantor will be sent to the address designated below for each Guarantor, or such other address of which Franchisor has been notified.

(e) If Guarantor is a partnership, limited liability company, or other unincorporated association, its liability will not be affected by changes in the name of the entity or in its membership.

THE UNDERSIGNED GUARANTOR ACKNOWLEDGES THAT HE/SHE WAS AFFORDED THE OPPORTUNITY TO READ THIS DOCUMENT CAREFULLY AND TO REVIEW IT WITH AN ATTORNEY OF HIS/HER CHOICE BEFORE SIGNING IT. GUARANTOR ACKNOWLEDGES HAVING READ AND UNDERSTOOD THE MEANING AND EFFECT OF THIS DOCUMENT BEFORE SIGNING IT.

(Remainder of page intentionally blank)

IN WITNESS WHEREOF, Guarantors has executed this Guaranty effective as of the date first written above.

GUARANTOR(S)

**PERCENTAGE OWNERSHIP IN
FRANCHISEE**

By: _____
Print Name: _____
Address: _____

Email: _____
SSN: _____

By: _____
Print Name: _____
Address: _____

Email: _____
SSN: _____

By: _____
Print Name: _____
Address: _____

Email: _____
SSN: _____

By: _____
Print Name: _____
Address: _____

Email: _____
SSN: _____

EXHIBIT D-1

INITIAL FEE PROMISSORY NOTE

INITIAL FEE PROMISSORY NOTE

\$ _____

Newton, Massachusetts
_____, 202__

FOR VALUE RECEIVED, the undersigned, [_____] (the "Maker"), with its principal offices located at [_____], promises to pay Sonesta RL Hotels Franchising Inc., a Washington corporation (the "Holder"), with its principal office located at Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458, or such other place as the Holder may designate in writing, the principal sum of [_____] (\$ _____) 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 and until an event of Default (as defined in Section 4, below). The capitalized terms not defined in this Initial Fee Promissory Note (the "Note") shall have the meanings given to them in the Agreement.

1. Background. Provided Maker is in compliance with the terms and conditions of the Agreement, and all required parties have executed a personal guaranty in a form acceptable to Holder, Holder has agreed to lend the principal amount to the Maker to cover a portion of the Initial Fee due under the Agreement.

2. Repayment Terms[; Forgiveness of Debt]. Maker shall pay Holder equal monthly payments in the amount of [\$ _____] for [__] months on or before the [____] day of each month. The entire principal amount of this Note must be paid no later than [_____]. [Notwithstanding the foregoing, provided no Default (defined below) has occurred, [_____] percent (____%) of the original principal amount will be forgiven without payment on _____. The Maker's obligation to repay the principal of this Note will cease and this Note will be canceled and discharged if and when the principal is completely paid and/or 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 the Holder with the Internal Revenue Service, with a copy provided to the Maker.]

3. Prepayment. At Maker's option, this Note may be prepaid in whole or in part, without penalty. Any partial prepayment shall not extend, postpone or change the due dates of the installment payments required by Section 2 or change the amounts thereof.

4. Default.

a. The occurrence of any one or more of the following events (regardless of whether Maker is notified of or cures such conditions) shall constitute a "Default" under this Note: (i) the Maker's failure to observe or perform any covenant, condition or agreement under the terms of this Note or under the terms of the Agreement, or any other obligation of the Maker to the Holder; (ii) any representation or warranty made in connection with this Note, your application, the Agreement, or in any report or other information later submitted to the Holder that is, in the Holder's opinion, false, misleading or incorrect in any material respect; (iii) for any reason, the Agreement terminates or is otherwise rendered ineffective; (iv) Maker's breach of the Agreement; (v) all or any portion of the Hotel, any interest (including a leasehold or subleasehold interest) in the Hotel (including an ownership interest in any entity that owns or leases the Hotel), or any interest in this Note is transferred or conveyed, whether directly or indirectly, or the Maker enters into any contractual arrangement or understanding to transfer or convey all or any portion of the Hotel, any interest (including a leasehold interest) in the Hotel (including an ownership interest in any entity that owns or leases the Hotel), or any interest in this Note; (vi) the filing of any insolvency or bankruptcy proceeding by or against any Maker or the appointment of a receiver for any Maker or any of the Maker's assets; (vii) any ownership interest of the Maker is transferred or conveyed, whether directly or indirectly, or an owner of the Maker enters into an agreement or understanding for such a transfer or

conveyance; and (viii) any of the events described in subsections (iv), (v), (vi) or (vii) occur with respect to any Affiliate of the Maker that is a party to an agreement with the Holder.

b. If a Default occurs, the Default Amount (as defined below) will immediately become due and payable by the Maker to the Holder without notice to the Maker, guarantors, or any other person or entity. The "Default Amount" means the original principal amount less any amounts Maker has repaid to Holder, or Holder has forgiven, as of the date of Default.

c. Interest will accrue on the Default Amount commencing on the 15th calendar day after the date of Default, at the rate equal to the lower of 1.5% per month or the highest amount permitted by applicable law.

d. The following provisions are applicable upon the occurrence of a Default: (i) the Maker will pay the Holder all expenses, costs and attorneys' fees that the Holder incurs in connection with the Holder's collection of any monies due under this Note or for the enforcement of any right under this Note or under any other agreement related to the loan evidenced by this Note; and (ii) the Holder may exercise any or all other rights, powers and remedies provided for in the Agreement, or now or later existing at law or in equity or by statute or otherwise.

e. The Maker waives demand, presentment for payment, protest and notice of dishonor, and all notices of every kind, and agrees that at any time and from time to time and with or without consideration, the Holder may, without notice to or further consent of the Maker or any guarantors and without in any manner releasing, lessening, or affecting the obligations of any of them: (i) release, surrender, waive, add, substitute, settle, exchange, compromise, modify, extend, or grant indulgences with respect to this Note; and (ii) grant any extension or other postponements of the time of payment of this Note. To the extent permitted by applicable law, the defense of the statute of limitations is hereby waived by the Maker.

5. General.

a. Each right, power and remedy of the Holder as provided for in this Note or now or hereinafter existing at law or in equity or by statute or otherwise is cumulative and concurrent and is in addition to every other right, power or remedy, and the Holder's exercise or beginning of exercise of any one or more of these rights, powers or remedies will not preclude the Holder's simultaneous or later exercise of any or all of these other rights, powers or remedies.

b. At Holder's request and at Maker's expense, Maker shall execute, acknowledge, and deliver all other instruments and perform all other acts necessary, desirable, or proper to carry out the purposes of and to effectuate the enforceability of this Note.

c. No failure or delay by the Holder to insist on the strict performance of any term of this Note or to exercise any right, power or remedy upon the occurrence of a Default or any other breach of this Note, is a waiver of any term or agreement or of any breach, or precludes the Holder from exercising any right, power or remedy at any later time unless in writing. If the Holder accepts any payment after its due date, this act will not be a waiver of the Holder's right to receive timely 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, the Default Amount or costs as the Holder, in its sole discretion determines. No amendment to or modification of this Note shall be binding on the Holder unless in writing and signed by the Holder.

d. 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.

e. As used in this Note, the term "Holder" shall include any subsequent holder of or participant in this Note. The Holder may assign this Note in whole or in part. The Holder may make available to any proposed assignee or participant all credit and financial data with respect to the Maker as may be in the possession of the Holder. The Maker agrees to provide any additional information that any proposed assignee or participant may reasonably request.

f. 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.

g. THE MAKER AND THE HOLDER HEREBY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO WHICH THE MAKER AND THE HOLDER MAY BE PARTIES, ARISING OUT OF OR IN ANY WAY PERTAINING TO THIS NOTE. IT IS AGREED AND UNDERSTOOD THAT THIS WAIVER CONSTITUTES A WAIVER OF TRIAL BY JURY OF ALL CLAIMS AGAINST ALL PARTIES TO SUCH ACTIONS OR PROCEEDINGS, INCLUDING CLAIMS AGAINST PARTIES WHO ARE NOT PARTIES TO THIS NOTE.

h. As used in this Note, the term, "including" means "including without limitation." The term "or" (as in "A or B") means "A or B or both."

In Witness Whereof, the 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 Personal Guaranty executed on even date herewith.

MAKER:

[_____]

By: _____

Date: _____

EXHIBIT D-2

DEVELOPMENT INCENTIVE PROMISSORY NOTE

DEVELOPMENT INCENTIVE PROMISSORY NOTE

\$ _____

Newton, Massachusetts
_____, 202__

FOR VALUE RECEIVED, the undersigned, [_____] (the "Maker"), with its principal offices located at [_____], promises to pay Sonesta RL Hotels Franchising Inc., a Washington corporation (the "Holder"), with its principal office located at Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458, or such other place as the Holder may designate in writing, the principal sum of [_____] (\$ _____) 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 and until an event of Default (as defined in Section 3, below). The capitalized terms not defined in this Development Incentive Promissory Note (the "Note") shall have the meanings given to them in the Agreement.

1. Background. Provided Maker is in compliance with the terms and conditions of the Agreement, and all required parties have executed a personal 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 development or conversion of the Hotel to the Brand.

2. Repayment Terms; Forgiveness of Debt. After the principal amount is funded (within ___ days after the Opening Date), [_____] percent (___%) of the original principal amount will be forgiven without payment on each anniversary of the Opening Date, provided that no Default (defined below) has occurred under this Note 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 of this Note 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 the Holder with the Internal Revenue Service, with a copy provided to the Maker.

3. Default.

a. The occurrence of any one or more of the following events (regardless of whether Maker is notified of or cures such conditions) shall constitute a "Default" under this Note: (i) the Maker's failure to observe or perform any covenant, condition or agreement under the terms of this Note or under the terms of the Agreement, or any other obligation of the Maker to the Holder; (ii) any representation or warranty made in connection with this Note, the Application, the Agreement, or in any report or other information later submitted to the Holder that is, in the Holder's opinion, false, misleading or incorrect in any material respect; (iii) for any reason, the Agreement terminates or is otherwise rendered ineffective; (iv) Maker's breach of the Agreement; (v) all or any portion of the Hotel, any interest (including a leasehold or subleasehold interest) in the Hotel (including an ownership interest in any entity that owns or leases the Hotel), or any interest in this Note is transferred or conveyed, whether directly or indirectly, or the Maker enters into any contractual arrangement or understanding to transfer or convey all or any portion of the Hotel, any interest (including a leasehold interest) in the Hotel (including an ownership interest in any entity that owns or leases the Hotel), or any interest in this Note; (vi) the filing of any insolvency or bankruptcy proceeding by or against any Maker or the appointment of a receiver for any Maker or any of the Maker's assets; (vii) any ownership interest of the Maker is transferred or conveyed, whether directly or indirectly, or an owner of the Maker enters into an agreement or understanding for such a transfer or conveyance; and (viii) any of the events described in subsections (iv), (v), (vi) or (vii) occur with respect to any Affiliate of the Maker that is a party to an agreement with the Holder.

b. If a Default occurs, the Default Amount (as defined below) will immediately become due and payable by the Maker to the Holder without notice to the Maker, guarantors, or any other person or entity. The "Default Amount" means the original principal amount less any amounts Maker has repaid to Holder, or Holder has forgiven, as of the date of Default.

c. Interest will accrue on the Default Amount commencing on the 15th calendar day after the date of Default, at the rate equal to the lower of 1.5% per month or the highest amount permitted by applicable law.

d. The following provisions are applicable upon the occurrence of a Default: (i) the Maker will pay the Holder all expenses, costs and attorneys' fees that the Holder incurs in connection with the Holder's collection of any monies due under this Note or for the enforcement of any right under this Note or under any other agreement related to the loan evidenced by this Note; and (ii) the Holder may exercise any or all other rights, powers and remedies provided for in the Agreement, or now or later existing at law or in equity or by statute or otherwise.

e. The Maker waives demand, presentment for payment, protest and notice of dishonor, and all notices of every kind, and agrees that at any time and from time to time and with or without consideration, the Holder may, without notice to or further consent of the Maker or any guarantors and without in any manner releasing, lessening, or affecting the obligations of any of them: (i) release, surrender, waive, add, substitute, settle, exchange, compromise, modify, extend, or grant indulgences with respect to this Note; and (ii) grant any extension or other postponements of the time of payment of this Note. To the extent permitted by applicable law, the defense of the statute of limitations is hereby waived by the Maker.

4. General.

a. Each right, power and remedy of the Holder as provided for in this Note or now or hereinafter existing at law or in equity or by statute or otherwise is cumulative and concurrent and is in addition to every other right, power or remedy, and the Holder's exercise or beginning of exercise of any one or more of these rights, powers or remedies will not preclude the Holder's simultaneous or later exercise of any or all of these other rights, powers or remedies.

b. At Holder's request and at Maker's expense, Maker shall execute, acknowledge, and deliver all other instruments and perform all other acts necessary, desirable, or proper to carry out the purposes of and to effectuate the enforceability of this Note.

c. No failure or delay by the Holder to insist on the strict performance of any term of this Note or to exercise any right, power or remedy upon the occurrence of a Default or any other breach of this Note, is a waiver of any term or agreement or of any breach, or precludes the Holder from exercising any right, power or remedy at any later time unless in writing. If the Holder accepts any payment after its due date, this act will not be a waiver of the Holder's right to receive timely 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, the Default Amount or costs as the Holder, in its sole discretion determines. No amendment to or modification of this Note shall be binding on the Holder unless in writing and signed by the Holder.

d. 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.

e. As used in this Note, the term "Holder" shall include any subsequent holder of or participant in this Note. The Holder may assign this Note in whole or in part. The Holder may make available to any proposed assignee or participant all credit and financial data with respect to the Maker as may be in the

possession of the Holder. The Maker agrees to provide any additional information that any proposed assignee or participant may reasonably request.

f. 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.

g. THE MAKER AND THE HOLDER HEREBY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO WHICH THE MAKER AND THE HOLDER MAY BE PARTIES, ARISING OUT OF OR IN ANY WAY PERTAINING TO THIS NOTE. IT IS AGREED AND UNDERSTOOD THAT THIS WAIVER CONSTITUTES A WAIVER OF TRIAL BY JURY OF ALL CLAIMS AGAINST ALL PARTIES TO SUCH ACTIONS OR PROCEEDINGS, INCLUDING CLAIMS AGAINST PARTIES WHO ARE NOT PARTIES TO THIS NOTE.

h. As used in this Note, the term, "including" means "including without limitation." The term "or" (as in "A or B") means "A or B or both."

In Witness Whereof, the 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 Personal Guaranty executed on even date herewith.

MAKER:

[]

By: _____

Date: _____

EXHIBIT E

BRAND MANUAL TABLE OF CONTENTS



GuestHouse

BRAND STANDARDS MANUAL

2022

Brand Standards Manual

Contents

100	PREFACE	2
	100.1 General	2
	100.2 Legal Compliance	2
	100.3 Ownership	3
	100.4 Interpretation	3
	100.5 Revisions	3
	100.6 Corrections, Additions and Deletions	3
101	Our Brand	10
102	Purpose and Scope	10
	102.1 Franchise Hotels	10
103	General Requirements	11
104	Supporting Reference Guides	12
	104.1 Signature Moments	12
	104.2 Style Guides and Guidelines	12
	104.3 Design Specifications	13
	104.4 OS&E	13
	104.5 Signage Specifications	13
	104.6 IT Information Systems & Technology Standards	13
	104.7 Coffee Standard	13
	104.8 Breakfast Standard	13
	104.9 Fitness Room Standard	13
105	RLH Brands Hallmark Features	14
	105.1 Hello Rewards® Guest Recognition Program	14
	105.2 Guest Experience	14
	105.3 Signature Moments Snapshot	15
106	Guest Room Requirements	17
	106.1 Non-Smoking Rooms	17
	106.2 In-Room Entertainment Offerings	17
107	Guest Request Items	17

Brand Standards Manual

108	Advertising and Signage _____	18
109	Guest Room Directory _____	18
110	Guest Room Signage _____	18
111	Americans with Disabilities Act Equipment _____	18
112	Pet Policy _____	19
113	Guest Room Supplies _____	20
	113.1 Guest Room Supply List	20
	113.2 Guest Room Furniture	23
	113.3 Bed and Linen	24
	113.4 Bath Supplies and Amenities	25
114	Guest Facilities _____	25
	114.1 Exterior Grounds and Common Areas	25
	114.2 Interior Public Spaces and Common Areas	26
	114.3 Guest Laundry	28
	114.4 Fitness Facilities	28
	114.5 Swimming Pools/Hot Tubs	29
	114.6 Meeting Space	30
115	Guest Services _____	30
	115.1 General Requirements	30
	115.2 Arrival Standards	30
	115.3 Safety Deposit Boxes	30
	115.4 Telephone	31
	115.5 Guest Relocation	31
	115.6 Luggage Assistance	31
	115.7 Check-In & Check-Out Time	31
	115.8 Courtesy Transportation	32
116	Business Services _____	32
117	Internet Services _____	32
118	Methods of Payment _____	33
119	Housekeeping _____	34

Brand Standards Manual

119.1	General Standards	34
119.2	Deep Cleaning and Preventative Maintenance	34
119.3	Bed Bug Remediation	35
119.4	Do Not Disturb	35
120	Laundry and Linen _____	36
121	Reservations _____	37
121.1	General Standards	37
121.2	Reservation Commitments	38
122	Human Resources _____	38
122.1	General Standards	38
123	Compliance with Federal, State and Local Laws and Regulations _____	39
124	Staffing _____	39
125	Learning and Development _____	39
125.1	Training and Development Introduction	39
125.2	Brand Conference	40
126	Safety and Security _____	41
126.1	General Standards	41
126.2	Emergency Requirements	41
126.3	Safety	41
126.4	Manager on Duty	41
126.5	Risk Management Support and Training	41
126.6	Insurance Requirements	42
126.7	Key and Guest Room Entry Control	43
127	Engineering _____	44
127.1	General Standards	44
127.2	Contract Services	45
127.3	Deep Cleaning and Preventative Maintenance	45
128	Food and Beverage _____	46
128.1	General Standards	46
128.2	Food and Beverage Concepts	46

Brand Standards Manual

128.3	Outlets – Uniform & Service Standards	46
128.4	Grab and Go – General Standards	46
128.5	Breakfast Standards	46
128.6	Pantry & Vending Standards – The Marketplace	47
129	Finance and Accounting _____	48
201	Hello Rewards® _____	49
201.1	Hello Bucks Earning & Redeeming	50
201.2	Hello Perks	51
201.3	Member Recognition and Additional Program Benefits	52
201.4	Benefits Delivered by Hello Rewards® Corporate Team	53
201.5	Hello Rewards Training	53
201.6	Hello Rewards In-Hotel Collateral	53
300	Revenue Management _____	54
300.1	Philosophy and Strategy	54
300.2	Competitive Market Intelligence	55
301	Franchise Field Marketing _____	55
301.1	Program Overview	55
301.2	Advertising Programs	56
301.3	Hotel Certifications	56
302	Technology _____	57
302.1	Technology Standards for Franchisees	57
302.2	Central Reservation System (CRS)	57
302.3	Property Management System (PMS)	58
302.4	Credit Card Interface	58
302.5	Network Security	59
302.6	Guest-Facing Communication	59
302.7	Telephony Optimization	59
302.8	Website	60
302.9	Photography	60
303	Program Fees _____	61

Brand Standards Manual

304	Sales & Distribution _____	62
	304.1 Room Rates (BAR)	62
	304.2 Sales Strategy	62
	304.3 Pricing Standards	64
	304.4 Cancel Policy	64
	304.5 Guarantee Policy	64
	304.6 OTA Channel Management	64
	304.6 Margin Improvement	65
400	Quality Assurance (QA) _____	66
	400.1 Quality Assurance Measures	66
	400.2 Guest Survey	66
	400.3 Guest Survey Process	66
	400.4 Results Tracking	66
	400.5 Guest Survey and Online Reviews Action Plan	66
401	Guest Relations _____	68
	401.1 Escalation Process	68
402	Online Reputation _____	69
403	Quality Assurance Evaluations _____	69
	403.1 Annual Evaluation Process	70
	403.2 Re-Inspections	70
	403.3 Evaluation Report	71
	403.4 Management Action Plan (MAP)	71
	403.5 Quality Assurance Cost	71
	403.6 Waiver	72
	403.7 Quality Evaluation Contact	72
500	Graphics _____	73
	500.1 General Graphic Standards	73
	500.2 Custom Branded Collateral - Print On Demand	73
600	Purchasing _____	74
	600.1 General	74



Brand Standards Manual

	600.2	Food Programs	75
	600.3	Office Equipment and Business Station	75
700	Reports and Payment		75
800	Appendix		76
		<i>APPENDIX A</i>	76
		<i>APPENDIX B</i>	79

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 GuestHouse Extended Stay franchise to operate as a GuestHouse Extended Stay- 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><input type="checkbox"/> Yes <input type="checkbox"/> No (Initial Here: _____)</p> <p>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 GuestHouse Extended Stay brand 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
FINANCIAL STATEMENTS

RED LION HOTELS CORPORATION

Financial Statements

For the years ended December 31, 2021 and 2020



INDEPENDENT AUDITOR'S REPORT

Red Lion Hotels Corporation

Opinion

We have audited the consolidated financial statements of Red Lion Hotels Corporation (the "Company"), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of comprehensive loss, shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Predecessor Auditor's Opinion on 2020 Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2020 were audited by other auditors whose report, dated March 22, 2021, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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.

Deloitte & Touche LLP

March 24, 2022

RED LION HOTELS CORPORATION
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

	<u>Successor</u> <u>December 31,</u> <u>2021</u>	<u>Predecessor</u> <u>December 31,</u> <u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,443	\$ 34,221
Restricted cash	-	100
Accounts receivable, net	5,127	7,310
Notes receivable, net	135	455
Prepaid expenses and other current assets	<u>1,663</u>	<u>4,065</u>
Total current assets	8,368	46,151
Property and equipment, net	14,229	27,533
Intangible assets, net	21,690	35,303
Operating lease right of use assets	3,910	4,723
Goodwill	19,416	18,595
Due from related parties	26,297	-
Other long term assets	<u>1,471</u>	<u>2,491</u>
Total assets	<u>\$ 95,381</u>	<u>\$ 134,796</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,055	\$ 4,359
Accrued compensation	2,184	984
Accrued expenses and other current liabilities	1,547	3,585
Long-term debt, due within one year	-	5,594
Operating lease liabilities	<u>1,486</u>	<u>1,559</u>
Total current liabilities	8,272	16,081
Long term liabilities:		
Operating lease liabilities, net of current portion	3,310	4,479
Deferred income taxes	233	405
Other long-term liabilities	<u>713</u>	<u>571</u>
Total long term liabilities	<u>4,256</u>	<u>5,455</u>
Total liabilities	<u>12,528</u>	<u>21,536</u>
Commitments and contingencies (Note 9)		
RLH Corporation shareholders' equity:		
Common shares, \$0.01 par value; 50,000,000 shares authorized, 25,464,899 issued and outstanding	255	255
Additional paid in capital	87,652	179,831
Accumulated deficit	<u>(5,054)</u>	<u>(68,050)</u>
Total RLH Corporation shareholders' equity	82,853	112,036
Noncontrolling interest	<u>-</u>	<u>1,224</u>
Total shareholders' equity	<u>82,853</u>	<u>113,260</u>
Total liabilities and shareholders' equity	<u>\$ 95,381</u>	<u>\$ 134,796</u>

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

RED LION HOTELS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(dollars in thousands)

	Successor	Predecessor	
	Period from March 17, 2021 to December 31, 2021	Period from January 1, 2021 to March 16, 2021	Year ended December 31, 2020
Revenues:			
Franchise fees	\$ 12,575	\$ 2,818	\$ 15,103
System, reservation and marketing fees	17,849	3,659	20,010
Rewards program fees	323	87	460
Other fee revenue	2,100	488	3,452
Total fee revenue	32,847	7,052	39,025
Hotel operations	8,328	1,434	12,921
Total revenues	41,175	8,486	51,946
Operating costs and expenses:			
Sales and marketing	15,883	2,072	18,447
General, administrative and other	17,341	4,056	30,066
Hotel operations	8,048	1,900	14,445
Depreciation and amortization	3,485	1,630	9,663
Asset impairment	-	-	15,915
Loss (gain) on asset dispositions, net	-	152	(7,405)
Transaction and integration costs	1,429	3,657	4,583
Total operating costs and expenses	46,186	13,467	85,714
Operating loss	(5,011)	(4,981)	(33,768)
Interest expense	-	(46)	(641)
Loss on early retirement of debt	-	(2)	(1,309)
Other income and expenses, net	(4)	35	254
Loss before income tax expense	(5,015)	(4,994)	(35,464)
Income tax (expense) benefit	(39)	(9)	1,100
Net loss	(5,054)	(5,003)	(34,364)
Net loss attributable to noncontrolling interest	-	(203)	(3,189)
Net loss and comprehensive loss attributable to RLH Corporation	\$ (5,054)	\$ (4,800)	\$ (31,175)

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

RED LION HOTELS CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(amounts in thousands, except share data)

Predecessor							
	Number of Common Shares	Common Stock	Additional Paid In Capital	Accumulated Deficit	RLH Corporation Total Equity	Equity Attributable to Noncontrolling Interest	Total Equity
Balance at December 31, 2019	25,148,005	\$ 251	\$ 181,608	\$ (36,875)	\$ 144,984	\$ 2,037	\$ 147,021
Net loss	-	-	-	(31,175)	(31,175)	(3,189)	(34,364)
Share based payment activity	316,894	4	599	-	603	-	603
Reclassification of noncontrolling interest	-	-	(2,376)	-	(2,376)	2,376	-
Balance at December 31, 2020	25,464,899	255	179,831	(68,050)	112,036	1,224	113,260
Net loss	-	-	-	(4,800)	(4,800)	(203)	(5,003)
Share based payment activity	-	-	168	-	168	-	168
Balance at March 16, 2021	25,464,899	\$ 255	\$ 179,999	\$ (72,850)	\$ 107,404	\$ 1,021	\$ 108,425
Successor							
	Number of Common Shares	Common Stock	Additional Paid In Capital	Accumulated Deficit	RLH Corporation Total Equity	Equity Attributable to Noncontrolling Interest	Total Equity
Balance at March 17, 2021	25,464,899	\$ 255	\$ 87,652	\$ -	\$ 87,907	\$ 877	\$ 88,784
Net loss	-	-	-	(5,054)	(5,054)	-	(5,054)
Distributions to noncontrolling interests	-	-	-	-	-	(877)	(877)
Balance at December 31, 2021	<u>25,464,899</u>	<u>\$ 255</u>	<u>\$ 87,652</u>	<u>\$ (5,054)</u>	<u>\$ 82,853</u>	<u>\$ -</u>	<u>\$ 82,853</u>

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

RED LION HOTELS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Successor	Predecessor	
	Period from March 17, 2021 to December 31, 2021	Period from January 1, 2021 to March 16, 2021	Year ended December 31, 2020
Cash flows from operating activities:			
Net loss	\$ (5,054)	\$ (5,003)	\$ (34,364)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:			
Depreciation and amortization	3,485	1,630	9,663
Noncash PIK interest and amortization of debt issuance costs	-	4	200
Amortization of key money and contract costs	68	178	981
Amortization of contract liabilities	(380)	(90)	(793)
Loss (gain) on asset dispositions, net	-	152	(7,405)
Loss on early retirement of debt	-	2	1,309
Asset impairment	-	-	15,915
Deferred income taxes	(173)	-	(338)
Stock based compensation expense	-	167	605
Provision of doubtful accounts	103	-	11,236
Change in current assets and liabilities			
Accounts receivable, net	310	(580)	1,855
Key money disbursements	-	-	(560)
Prepaid expenses and other current assets	2,508	(1,244)	1,597
Other long term assets	(1,271)	-	-
Accounts payable	(34)	(1,395)	(1,289)
Accrued compensation, accrued expenses, and other liabilities	1,053	(1,878)	(3,112)
Net cash provided by (used in) operating activities	<u>615</u>	<u>(8,057)</u>	<u>(4,500)</u>
Cash flows from investing activities:			
Capital expenditures	(98)	(142)	(1,852)
Net proceeds from disposition of property and equipment	-	7,494	37,329
Collection of notes receivable	65	19	31
Advances on notes receivable	-	-	(200)
Cash transfers to parent for centralized cash management	(26,297)	-	-
Net cash (used in) provided by investing activities	<u>(26,330)</u>	<u>7,371</u>	<u>35,308</u>
Cash flows from financing activities:			
Borrowings on long-term debt, net of discounts	-	-	4,234
Repayment of long-term debt and finance leases	-	(5,600)	(21,970)
Repayment of line of credit borrowing	-	-	(10,000)
Distributions to noncontrolling interest	(877)	-	-
Prepayment penalty on long-term debt	-	-	(559)
Stock-based compensation awards cancelled to settle employee tax withholding	-	-	(82)
Stock option and stock purchase plan issuances, net and other	-	-	82
Net cash used in financing activities	<u>(877)</u>	<u>(5,600)</u>	<u>(28,295)</u>
Change in cash, cash equivalents, and restricted cash:			
Net (decrease) increase in cash, cash equivalents, and restricted cash	(26,592)	(6,286)	2,513
Cash, cash equivalents, and restricted cash at beginning of period	<u>28,035</u>	<u>34,321</u>	<u>31,808</u>
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 1,443</u>	<u>\$ 28,035</u>	<u>\$ 34,321</u>

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

RED LION HOTELS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(dollars in thousands)

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Period from March 17, 2021 to December 31, 2021</u>	<u>Period from January 1, 2021 to March 16, 2021</u>	<u>Year ended December 31, 2020</u>
Supplemental disclosure of cash and cash equivalents and restricted cash:			
The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets to the amount shown in the consolidated statements of cash flows:			
Cash and cash equivalents	\$ 1,433	\$ 28,035	\$ 34,221
Restricted cash	-	-	100
Total cash and cash equivalents and restricted cash	<u>\$ 1,433</u>	<u>\$ 28,035</u>	<u>\$ 34,321</u>
Supplemental cash flow information:			
Cash paid for interest	\$ -	\$ 46	\$ 508
Cash paid (refunded) for income taxes	-	-	(223)

The accompanying notes are an integral part of these 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 "company") is 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: Sonesta Hotels and Resorts, Sonesta ES Suites, Sonesta Simply Suites, Sonesta Select, Hotel RL, Red Lion Hotels, Red Lion Inn & Suites, GuestHouse Extended Stay, Americas Best Value Inn, Canadas Best Value Inn, Knights Inn and Signature Inn. As of December 31, 2021, our system for all our brands included 854 franchised and licensed hotels and 3 company operated hotels.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which we operate.

While it is unknown how long these conditions will last and what the complete financial effect will be to the company, it is reasonably possible that estimates made in our consolidated financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions. Although we expect our revenues to increase in 2022 compared to 2021 as a result of hotel performance due to increases in expected travel because of pandemic related risk mitigation factors such as vaccination plans and vaccine boosters, we cannot be certain of the extent of the impact of the adverse conditions discussed above on our revenues and cash flows from operations.

On December 30, 2020, RLH Corporation entered into a definitive merger agreement ("Merger Agreement") with Sonesta International Hotels Corporation ("Sonesta") under which RLHC would be acquired by Sonesta in an all-cash transaction ("Merger"). Under the terms of the Merger Agreement, holders of RLHC's common stock, RSUs, and PSUs would receive \$3.50 per share or unit 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, subsequently, consideration totaling \$87.9 million was transferred from Sonesta to RLHC shareholders. RLHC has delisted from the NYSE and provided notice to eliminate public filing requirements. See Note 15 for further discussion of the impact of this transaction on our consolidated financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

As a result of the Merger, for accounting purposes, RLHC was acquired by Sonesta. The Merger was accounted for as a business combination under the scope of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 805, *Business Combinations*, ("ASC 805"), and Sonesta was considered the accounting acquirer. Accordingly, the financial statement presentation includes the consolidated financial statements of RLHC as "Predecessor" for periods prior to March 17, 2021 (the "Closing Date") and as "Successor" for periods after the Closing Date.

The consolidated financial statements have been prepared by us in accordance with generally accepted accounting principles in the United States of America, or GAAP, and include all accounts and controlled subsidiaries' accounts. All inter-company 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.

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reclassifications

For the year ended December 31, 2020, amounts received as rebates from preferred vendors used by our franchised hotels were presented as revenues in the other fee revenue line item in our consolidated statements of comprehensive loss. These rebates were previously presented as a reduction to general, administrative and other expenses. We have reclassified this item in our consolidated statements of comprehensive loss for 2020 resulting in increases of \$0.1 million to other fee revenue and general, administrative and other expenses, respectively. This had no impact on previously reported net loss.

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. However, there was no conference during 2021 and only a virtual conference during 2020.

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. Franchise fees for economy agreements are typically fixed fee for royalties and marketing based on the room count of the hotel.

Franchise revenues 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:

- *Franchise fees* are royalties 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.
- *System, reservation and marketing fees* 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.

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- *Other fee revenue* are primarily charges for services provided to franchised properties for revenue management and quality assurance inspections as well as liquidated damages paid if an agreement is terminated early.

Any consideration paid to incentivize hotel owners to enter into franchise contracts is capitalized and reduces revenues as amortized over the length of the contract. Application fees paid at the initiation of a franchise contract are capitalized and amortized to revenues over the length of the contract. 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 as a reduction of franchise fees and system, reservation and marketing fees in the consolidated statements of comprehensive loss 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 operations 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.

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

Restricted cash was comprised solely of an earnest money deposit related to the purchase and sale agreement for the Hotel RL Olympia hotel prior to the closing of the sale. See Notes 3 and 7 for further information on this hotel and Note 14 for additional information regarding the hotel disposition.

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 each of the periods during the past two years (in thousands):

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Period from March 17, 2021 to December 31, 2021</u>	<u>Period from January 1, 2021 to March 16, 2021</u>	<u>Year ended December 31, 2020</u>
Balance, beginning of period	\$ 7,712	\$ 7,712	\$ 4,589
Purchase price accounting adjustment	(7,712)	-	-
Additions to allowance	103	-	5,174
Write-offs, net of recoveries	-	-	(2,051)
Balance, end of period	<u>\$ 103</u>	<u>\$ 7,712</u>	<u>\$ 7,712</u>

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

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Period from March 17, 2021 to December 31, 2021</u>	<u>Period from January 1, 2021 to March 16, 2021</u>	<u>Year ended December 31, 2020</u>
Balance, beginning of period	\$ 845	\$ 845	\$ 552
Purchase price accounting adjustment	(845)	-	-
Additions to allowance	-	-	6,062
Write-offs, net of recoveries	-	-	(5,769)
Balance, end of period	<u>\$ -</u>	<u>\$ 845</u>	<u>\$ 845</u>

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets primarily include prepayments for insurance, taxes, deposits, and advertising costs. This caption also consists of a small number of notes receivable to franchisees. 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.

Due from Related Parties

Due from related parties represents cash transferred to a central concentration account held by our owner, Sonesta, offset by certain vendor and payroll related payments made by Sonesta on our behalf (“Cash Transfers”). Cash Transfers are included in cash transfers to parent for centralized cash management as an investing activity in our consolidated statements of cash flows.

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 an expense as incurred.

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. 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, and Knights Inn. As a result of the Merger intangible assets were recognized for Red Lion brands as well. 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. The impairment losses are included in asset impairment in our consolidated statements of comprehensive loss. See further discussion of the impairment and reclassification at Note 5. There were no impairment losses recognized during the year ended December 31, 2021.

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

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. These losses are included in asset impairment in our consolidated statements of comprehensive loss. See further discussion of the impairment losses at Note 4. There were no impairment losses recognized during the year ended December 31, 2021.

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 include franchise operations and company operated hotel operations. 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, 2021 and 2020.

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. In February 2021, we sold the Hotel RL Olympia hotel, which was the last remaining joint venture property. After the final liquidating distribution was made to the joint venture partner in July 2021, we no longer had any VIEs.

Other Long Term Assets

Other long term 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 other long term assets on our consolidated balance sheets and amortize the amount paid as a reduction of revenue over the term of the franchise agreements. The portion of these costs that will be amortized over the following 12 months are classified as prepaid expenses and other current assets on our consolidated balance sheets. IT system

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2021 and 2020, 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, 2021 and 2020.

Advertising and Promotion

Costs associated with advertising and promotional efforts are generally recognized as incurred.

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. For non-public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. 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. 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 RL Venture LLC (RL Venture) and RLS DC Venture LLC (RLS DC Venture). Subsequent to the hotel sales in the first quarters of 2020 and 2021 discussed further below, RL Venture and RLS DC Venture have had no additional financial statement activity and have no remaining asset or liability balances.

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 our consolidated financial statements.

In March 2020, 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 2020, the Hotel RL Salt Lake City sold for \$33.0 million. Proceeds from this sale were used to repay in full the secured loan for the Hotel RL Salt Lake City property as discussed further in Note 7. 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 for the Hotel RL Olympia property as discussed further in Note 7. As of December 31, 2021 all properties in RL Venture had been disposed of and the entity has been liquidated.

Cash distributions may also be made periodically based on calculated distributable income. During the period from March 17, 2021 through December 31, 2021, RL Venture made a final cash distributions of \$2.0 million, of which we received \$1.1 million.

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

No distributions were made during year ended December 31, 2020 or during the period from January 1, 2021 through March 16, 2021.

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 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 in our consolidated balance sheets as no remaining distributions to the joint venture partner were required.

4. Property and Equipment

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

<u>Asset Description</u>	<u>Successor</u>		<u>Predecessor</u>		<u>Estimated Useful Lives</u>
	<u>December 31, 2021</u>		<u>December 31, 2020</u>		
Land	\$	3,800	\$	5,595	N/A
Buildings and equipment		6,822		31,818	Up to 25 years
Furniture and fixtures		6,375		2,442	Up to 7 years
Landscaping and land improvements		25		294	Up to 10 years
Construction in progress		162		575	N/A
		<u>17,184</u>		<u>40,724</u>	
Accumulated depreciation		<u>(2,955)</u>		<u>(13,191)</u>	
Real estate property, net	\$	<u>14,229</u>	\$	<u>27,533</u>	

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.

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair values for the RLH Seattle property were determined based on a discounted cash flow analysis, which is a Level 3 fair value measurement. 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. 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 in our 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 in our consolidated balance sheets. There were no other impairments of our long-lived assets in 2020.

During the period from January 1, 2021 through March 16, 2021, we sold one hotel for a loss of \$0.2 million and during the year ended December 31, 2020, we sold two hotel properties for a gain of \$7.9 million. There were no dispositions during the period from March 17, 2021 through December 31, 2021. See further discussion of these dispositions at Note 14.

Depreciation expense for property and equipment was \$3.3 million, \$1.1 million and \$6.6 million for the period from March 17, 2021 to December 31, 2021, the period from January 1, 2021 to March 16, 2021, and the year ended December 31, 2020, respectively.

5. 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. 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 our consolidated statements of comprehensive loss. No impairments were identified in the annual impairment testing of our goodwill and other indefinite lived intangible assets during either of the periods in the year ended December 31, 2021.

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%.

At December 31, 2021 and 2020, our intangible assets were as follows (in thousands):

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Asset Description	Successor		
	December 31, 2021		
	Cost	Accumulated Amortization	Net
Amortizable intangible assets:			
Agreements with franchisees	\$ 5,184	\$ (195)	\$ 4,989
Carrying value of brand names (finite lives)	200	(28)	172
Total amortizable intangible assets	5,384	(223)	5,161
Carrying value of brand names (indefinite lives)	16,529	-	16,529
Intangible assets, net	<u>\$ 21,913</u>	<u>\$ (223)</u>	<u>\$ 21,690</u>
Asset Description	Predecessor		
	December 31, 2020		
	Cost	Accumulated Amortization	Net
Amortizable intangible assets:			
Agreements with franchisees	\$ 20,773	\$ (10,718)	\$ 10,055
Carrying value of brand names (finite lives)	5,395	(2,554)	2,841
Total amortizable intangible assets	26,168	(13,272)	12,896
Carrying value of brand names (indefinite lives)	22,407	-	22,407
Intangible assets, net	<u>\$ 48,575</u>	<u>\$ (13,272)</u>	<u>\$ 35,303</u>

Amortization of our finite lived intangible assets was \$0.2 million, \$0.6 million, and \$3.1 million for the period from March 17, 2021 through December 31, 2021, the period from January 1, 2021 through March 16, 2021, and the year ended December 31, 2020, respectively. The weighted average amortization period for intangibles was 21 years for the period from March 17, 2021 through December 31, 2021 and 10 years for the period from January 1, 2021 through March 16, 2021 and the year ended December 31, 2020, respectively.

As of December 31, 2021, estimated future amortization expenses related to acquired agreements with franchisees and finite-lived brand names is as follows (in thousands):

	Agreements With Franchisees	Brand Names
2022	\$ 235	\$ 33
2023	235	33
2024	235	33
2025	235	33
2026	235	33
Thereafter	3,814	7
	<u>\$ 4,989</u>	<u>\$ 172</u>

6. Revenue from Contracts with Customers

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

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Successor		Predecessor	
	December 31, 2021		December 31, 2020	
Accounts receivable	\$ 5,127		\$ 7,310	
Key money	78		2,389	
Capitalized contract costs	157		482	
Contract liabilities	1,047		910	

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.

7. Debt and Line of Credit

Our only debt as of December 31, 2020 was a mortgage note for the Hotel RL Olympia property for \$5.6 million that was classified as a current liability. There was no debt as of December 31, 2021 as the Hotel RL Olympia mortgage note was paid in full during 2021 as described below.

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 was secured by the Hotel RL Olympia property, on a nonrecourse basis. The loan had a maturity date of March 18, 2021 and a variable interest rate of LIBOR plus 2.25%, payable monthly. 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 \$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.

RLH DC

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

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. 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 2020.

8. Operating Lease Commitments

Lease information (as lessee): As of December 31, 2021 and 2020, we leased office space for our corporate headquarters in Denver, CO under an operating lease that expires in 2023 as well as ground leases for two hotels subject to operating leases with unrelated third parties in Seattle, WA and Kalispell, MT, respectively, that expire in 2024 and 2028, respectively. These leases generally contain fixed contractual rent changes and certain of the leases provide for operating expense reimbursements. We recognize rental expense on leases that contain fixed contractual rent changes on a straight line basis over the terms of the respective leases. We recorded rental expenses, excluding amounts paid for real estate taxes or other building operations, as follows:

	Successor	Predecessor	
	Period from March 17, 2021 to December 31, 2021	Period from January 1, 2021 to March 16, 2021	Year ended December 31, 2020
Office leases ⁽¹⁾	\$ 98	\$ 22	\$ 425
Hotel leases	470	123	1,227
Total	\$ 568	\$ 145	\$ 1,652

(1) Rental expense for our Denver office leases was reduced by \$0.3 million, \$0.1 million, and \$0.3 million of income received under subleases for the period from March 17, 2021 through December 31, 2021, the period from January 1, 2021 through March 16, 2021, and the year ended December 31, 2020, respectively.

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Rental expenses for our office space leases and our hotel leases are included in general, administrative and other expenses in our consolidated statements of comprehensive loss.

At December 31, 2021, our right of use assets and related lease liabilities totaled \$3.9 million and \$4.8 million, respectively, which represented our future obligations under our operating leases that are determined to be material and are included in operating lease right of use assets and operating lease liabilities, respectively, in our consolidated balance sheets. As of December 31, 2021, the future maturities of lease liabilities are as indicated below (in thousands):

	Total
2022	\$ 1,486
2023	1,449
2024	595
2025	581
2026	593
Thereafter	809
Total lease payments	5,513
Less: imputed interest	(717)
Present value of lease liabilities ⁽¹⁾	\$ 4,796

(1) The weighted average discount rate used to calculate the lease liability and the weighted average remaining term for our leases was 5.80% and 5 years (range of 23 months to 6 years), respectively.

9. Commitments and Contingencies

During the period from March 17, 2021 through December 31, 2021, the Company reached settlements related to a number of litigations that both existed prior to the Merger and were related to the Merger, resulting in aggregate payments and expense recognized of \$3.6 million included in general, administrative and other expense in the consolidated statements of comprehensive loss. There were no settlements or related expenses recognized during the period from January 1, 2021 through March 16, 2021 and the year ended December 31, 2020.

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.

10. 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. This plan was discontinued after the completion of the Merger.

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 periods during 2021 and 2020, stock-based compensation expense is as follows (in thousands):

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Successor	Predecessor	
	Period from March 17, 2021 to December 31, 2021	Period from January 1, 2021 to March 16, 2021	Year ended December 31, 2020
Restricted stock units	\$ -	\$ 45	\$ 159
Performance stock units	-	-	15
Unrestricted stock awards	-	122	403
Employee stock purchase plan	-	-	28
Total stock-based compensation	<u>\$ -</u>	<u>\$ 167</u>	<u>\$ 605</u>

Restricted Stock Units, Shares Issued as Compensation

During the year ended December 31, 2020, we granted 235,251 unvested restricted stock units to executive officers and other key employees, which typically vest 25% each year for four years on each anniversary of the grant date. No unvested restricted stock units were granted at any point in 2021. While all of the shares are considered granted, they are not considered issued or outstanding until vested. There were no unvested restricted stock units outstanding at December 31, 2021 as all unvested restricted stock units were cancelled at the date of the Merger and cash of \$3.50 per unit was paid to the unit holders in accordance with the Merger Agreement.

A summary of restricted stock unit activity for the period from January 1, 2021, through March 16, 2021, is as follows:

	Predecessor	
	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2021	233,751	\$ 4.47
Cancellations	(233,751)	\$ 4.47
Balance, March 16, 2021	<u>-</u>	<u>\$ -</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 the period ended January 1, 2021 through March 16, 2021 and the year ended December 31, 2020, we recognized approximately \$0.1 million and \$0.4 million, respectively, in compensation expense related to these grants. Awards granted during the period from January 1, 2021 through March 16, 2021 were settled in cash as a result of the Merger. No expense for these grants was recognized during the period from March 17, 2021 through December 31, 2021.

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. The ESPP plan was discontinued after the completion of the Merger.

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 the year ended December 31, 2020, there were 32,834 shares issued, and approximately \$28,000 was recognized in compensation

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

expense related to the discount associated with the plan.

11. Income Taxes

The Company is subject to federal and certain state income taxes on its taxable income and/or gross receipts notwithstanding its historical net operating losses. The company is subject to audit for tax years ending December 31, 2021, December 31, 2020, and December 3, 2019.

We had loss before income taxes as follows:

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Period from March 17, 2021 to December 31, 2021</u>	<u>Period from January 1, 2021 to March 16, 2021</u>	<u>Year ended December 31, 2020</u>
United States	\$ (5,317)	\$ (5,091)	\$ (35,706)
Foreign	302	97	242
Total	<u>\$ (5,015)</u>	<u>\$ (4,994)</u>	<u>\$ (35,464)</u>

For the periods during 2021 and 2020, our provisions for U.S., state, and foreign income taxes, if any, are included below.

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Period from March 17, 2021 to December 31, 2021</u>	<u>Period from January 1, 2021 to March 16, 2021</u>	<u>Year ended December 31, 2020</u>
Current:			
Federal benefit	\$ -	\$ -	\$ 699
State (expense) benefit	(39)	(9)	105
Foreign expense	-	-	(41)
Deferred benefit	-	-	337
Income tax (expense) benefit	<u>\$ (39)</u>	<u>\$ (9)</u>	<u>\$ 1,100</u>

The components of our deferred tax assets and deferred tax liabilities at December 31, 2021 and 2020 are as follows:

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31,			
	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Property and equipment	\$ 1,333	\$ -	\$ 1,508	\$ -
Brand name	-	-	-	129
Intangible assets	553	-	-	-
Goodwill	1,627	-	1,889	-
Prepaid assets	-	-	-	502
Allowance for doubtful accounts	2,950	-	2,259	-
RL Venture	-	-	174	-
Stock-based compensation	-	-	68	-
Tax credit carryforwards	-	-	5,121	-
Federal and state net operating losses	7,051	-	5,802	-
Leasing liabilities	1,216	-	1,531	-
Leasing assets	-	992	-	1,198
Other receivables	-	-	586	-
Other	649	-	2,509	-
Valuation allowance	(14,620)	-	(20,023)	-
Total	\$ 759	\$ 992	\$ 1,424	\$ 1,829

At December 31, 2021 and 2020, we had federal operating loss carryforwards of \$27.8 million and \$20.3 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, 2021 and 2020, we had state gross operating loss carryforwards of approximately \$32.2 million and \$29.8 million, respectively. We had federal and state tax credit carryforwards of approximately \$5.6 million and \$5.1 million at December 31, 2021 and 2020, 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 2020 and 2021 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, 2021 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, 2021, the total valuation allowance of \$14.6 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 reconciliation of the statutory income tax rate to the effective tax rate is as follows:

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Successor		Predecessor			
	Period from March 17, 2021 to December 31, 2021		Period from January 1, 2021 to March 16, 2021		Year ended December 31, 2020	
Benefit provision at federal statutory rate	\$ 1,073	21.0%	\$ 1,049	21.0%	\$ 7,447	21.0%
State/foreign tax benefit	180	4.4%	209	4.4%	1,438	4.1%
Effect of tax credits	-	0.0%	-	0.0%	(20)	-0.1%
Non-controlling interest	-	0.0%	-	0.0%	(670)	-1.9%
Other	-	0.0%	-	0.0%	230	0.6%
Valuation allowance	(1,292)	-25.8%	(1,267)	-25.4%	(7,325)	-20.6%
Income tax (expense) benefit	<u>\$ (39)</u>	<u>-0.4%</u>	<u>\$ (9)</u>	<u>0.0%</u>	<u>\$ 1,100</u>	<u>3.1%</u>

ASC 740, *Income Taxes*, provides a model for how a company should recognize, measure and present in its financial statements uncertain tax positions that have been taken or are expected to be taken with respect to all open years and in all significant jurisdictions. Pursuant to this accounting standard, we recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement.

12. 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 on our consolidated balance sheets 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.

	Successor		Predecessor	
	December 31, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Notes receivable	\$ 135	\$ 135	\$ 455	\$ 455
Financial liabilities:				
Total debt	\$ -	\$ -	\$ 5,600	\$ 5,455

13. 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 former 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

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

also transitioned from RL Management, Inc. to Merritt. During the period from January 1, 2021 through March 16, 2021 and the year ended December 31, 2020, we paid \$21,000 and \$0.6 million, respectively, in management fees to Merritt for management of these properties. These amounts were included in hotel operations expense in the consolidated statements of comprehensive loss. This relationship was no longer considered a related party after the completion of the Merger.

Additionally, 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 period from January 1, 2021 through March 16, 2021 and the year ended December 31, 2020, we recognized revenue of \$0.2 million and \$0.7 million, respectively, for services sold to these hotels. These amounts were included in other fee revenue in the consolidated statements of comprehensive loss. This relationship was no longer considered a related party after the completion of the Merger.

After the completion of the Merger, RLH has distributed cash to Sonesta for working capital purposes and Sonesta has paid a number of vendors on behalf of RLH. The net impact of this activity for the period from March 17, 2021 through December 31, 2021 is a \$26.5 million receivable from Sonesta to RLH, included in due from related parties in our consolidated balance sheets.

14. Dispositions

During the years ended December 31, 2021 and 2020, 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 three company operated hotel properties. In February 2021, we disposed of one company operated hotel, comprising net assets of \$7.7 million, for cash proceeds of \$7.5 million. This disposition resulted in a loss of \$0.2 million. During the first quarter of 2020, we disposed of two company operated hotel properties, 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. The dispositions in 2021 and 2020 did not meet the criteria for discontinued operations.

The following summarizes the results of operations for the three properties sold during 2021 and 2020 (in thousands):

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Period from March 17, 2021 to December 31, 2021</u>	<u>Period from January 1, 2021 to March 16, 2021</u>	<u>Year ended December 31, 2020</u>
Pre-tax income (loss)	\$ -	\$ (439)	\$ 1,613
Net loss attributable to noncontrolling interest	-	203	1,083
Net income (loss) attributable to RLHC	<u>\$ -</u>	<u>\$ (236)</u>	<u>\$ 2,696</u>

As of December 31, 2021 and 2020, we had no properties meeting the criteria to be classified as held for sale in our consolidated balance sheets.

15. Business Combination

On March 17, 2021, or the Acquisition Date, the Sonesta completed acquisition of RLH pursuant to a Merger Agreement, where Sonesta acquired 100% of the outstanding common stock and voting interest of RLH.

Total consideration for the RLH Acquisition was \$87.9 million, which the company paid in cash to RLH shareholders. Subsequent to the Acquisition Date, \$0.8 million in cash was exchanged in settlement of certain restricted and preferred stock units, or RSU/PSU Settlement. In accordance with the applicable accounting guidance, we included \$229 of the RSU/PSU Settlement in the RLH Consideration and a corresponding liability for purchase price accounting.

The following table (in thousands) summarizes the estimated fair values of the assets acquired and liabilities assumed at the Acquisition Date. We are in the process of finalizing our calculations related to goodwill and certain deferred tax liabilities;

RED LION HOTELS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

thus, the provisional measurements of goodwill and deferred tax liabilities (included within assumed non-interest bearing liabilities below) are subject to change.

Purchase Price Allocation:

Cash and cash equivalents	\$ 28,035
Intangible assets - brand names	16,730
Intangible assets - franchise agreements	5,184
Land	3,800
Building and improvements	6,756
Furniture, fixtures and equipment	6,745
Accounts receivable, net	5,656
Prepaid expenses and other current assets	4,616
Operating lease right of use assets and other long term assets	4,706
Goodwill	19,416
Assumed non-interest bearing liabilities	(13,737)
Net purchase price	<u>87,907</u>

16. Subsequent Events

The Company has evaluated subsequent events through March 24, 2022, which is the date these statements were available to be issued. There were no other significant subsequent events identified that required disclosures in these financial statements.

RED LION HOTELS CORPORATION

Financial Statements

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



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

Current assets:		
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
Total current assets	46,151	58,509
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
Total assets	\$ 134,796	\$ 246,518

LIABILITIES

Current liabilities:		
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
Total current liabilities	16,081	35,481
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
Total liabilities	21,536	99,497

Commitments and contingencies (Note 10)

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 25,148,005 shares issued and outstanding	255	251
Additional paid-in capital, common stock	179,831	181,608
Accumulated deficit	(68,050)	(36,875)
Total RLH Corporation stockholders' equity	112,036	144,984
Noncontrolling interest	1,224	2,037
Total stockholders' equity	113,260	147,021
Total liabilities and stockholders' equity	\$ 134,796	\$ 246,518

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		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	RLH Corporation Total Equity	Equity Attributable to Non-controlling Interest	Total Equity
	Shares	Amount					
(In thousands, except share data)							
Balances, December 31, 2018	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)
Balances, December 31, 2019	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	—
Balances, December 31, 2020	<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)	
Operating activities:		
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>
Investing activities:		
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>
Financing activities:		
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>
Change in cash, cash equivalents and restricted cash:		
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)	
Supplemental disclosure of cash flow information:		
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):

	Years Ended December 31,	
	2020	2019
Allowance for doubtful accounts		
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):

	Years Ended December 31,	
	2020	2019
Allowance for doubtful accounts		
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):

Year Ended December 31, 2020	Franchised Hotels	Company Operated Hotels	Other	Total
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

Year Ended December 31, 2019	Franchised Hotels	Company Operated Hotels	Other	Total
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):

	December 31,	
	2020	2019
Goodwill	\$ 18,595	\$ 18,595
Intangible assets		
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):

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

⁽¹⁾ 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.

⁽²⁾ 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):

Years Ending December 31,	Amount
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):

	December 31, 2020	December 31, 2019
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):

	Key Money	Capitalized Contract Costs	Contract Liabilities
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):

Years Ending December 31,	Contra Revenue	Expense	Revenue
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>

Finance Leases	December 31, 2020	December 31, 2019
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):

	Financial Statement Line Item(s)	Year Ended December 31, 2020	Year Ended December 31, 2019
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)	—
Finance lease expense			
Amortization of finance right-of-use assets	Depreciation and amortization	24	135
Interest on lease liabilities	Interest expense	4	29
Total finance lease expense		28	164
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):

Cash paid for amounts included in the measurement of lease liabilities:	Year Ended December 31, 2020	Year Ended December 31, 2019
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
Weighted average remaining lease term (in years)		
Operating leases	5	69
Finance leases	1	3
Weighted average discount rate		
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	—
Total lease payments	7,073	14
Less: imputed interest	1,035	—
Total liability	\$ 6,038	\$ 14

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:

	Years Ended December 31,	
	2020	2019
	(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:

	Number of Shares	Weighted Average Exercise Price
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):

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Numerator - basic and diluted:		
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)
Denominator:		
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.

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

⁽¹⁾ 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.

⁽²⁾ 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.

⁽³⁾ 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.

⁽⁴⁾ 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):

	Years Ended December 31,	
	2020	2019
Current:		
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	\$ (1,100)	3.1%	\$ 253	-1.2%

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	\$ 1,424	\$ 1,829	\$ 12,174	\$ 12,917

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):

	Valuation Allowance
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.

	December 31,			
	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Notes receivable	\$ 455	\$ 455	\$ 5,709	\$ 5,709
Financial liabilities:				
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.

EXHIBIT H

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 2022 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 28 day of March, 2022.

GUARANTOR:

RED LION HOTELS CORPORATION


By: 
Name: Stephen P. Miano
Title: Treasurer

EXHIBIT I
LIST OF FRANCHISEES

LIST OF FRANCHISEES AS OF 12/31/2021

ALABAMA

Kleem 2012, L.L.C.
GuestHouse Inn
1237 US Hwy 431 S
Abbeville, AL 36310
(334) 585-5060

HIRA, Inc.
GuestHouse Inn
1075 Ross Clark Cir.
Dothan, AL 36303
(334) 793-2525

ALASKA

Plaza Inn Hotels, Inc.
GuestHouse Inn & Suites
321 East 5th Avenue
Anchorage, AK 99501
(907) 276-7226

KENTUCKY

PMVS Hospitality, LLC
GuestHouse Lexington
568 Cumberland Ridgeway
Bowling Green, KY 42103
(270) 535-5557

MINNESOTA

Sweet Property, LLC
GuestHouse Inn & Suites
435 I61h Avenue NW
Rochester, MN 55901
(507) 288-9090

MISSOURI

Asha Hospitality, LLC
GuestHouse Inn & Suites
4502 SE US Hwy. 169
St. Joseph, MO 64507
(816) 232-2345

OREGON

Ali's Hospitality, LLC
GuestHouse Inn & Suites
3350 Gateway Street
Springfield, OR 97477
(541) 747-0332

TENNESSEE

Raman N. Patel
GuestHouse Inn
3083 B. Wilma Rudolph Boulevard
Clarksville, TN 37040
(931) 552-8060

WASHINGTON

Therra Sahara Investors LLC
GuestHouse Bellingham
805 Lakeway Drive
Bellingham, WA 98229
(360) 671-9600

Royal G and H, Inc.
GuestHouse Inn
1000 Griffin Avenue
Enumclaw, WA 98022
(360) 825-4490

PAR & LEE, LLC
GuestHouse
3021 Pacific Hwy. E.
Fife, WA 98424
(253) 922-3500

Frank Hotels Longview, LLC
GuestHouse Inn & Suites
501 Three Rivers Drive
Kelso, WA 98626
(360) 414-5953

Delta Guide Meridian, Inc.
GuestHouse Montesano
100 Brumfield Ave. W.
Montesano, WA 98563
(360) 249-4424

Hoon's Corporation
GuestHouse Inn & Suites
19801 7th Ave NE
Poulsbo, WA 98370
(360) 697-4400

LIST OF FRANCHISEES SIGNED BUT NOT YET OPENED AS OF 12/31/2021

None.

EXHIBIT J

**LIST OF FRANCHISEES WHO HAVE
LEFT THE SYSTEM OR NOT COMMUNICATED**

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

**LIST OF FRANCHISEES WHO HAVE
LEFT THE SYSTEM OR NOT COMMUNICATED
AS OF 12/31/2021**

GEORGIA

Unique Hotel, LLC¹
2767 Windy Hill Road
Marietta, GA
(678) 213-4722

OREGON

Wilsonville Estates LLC
GuestHouse Inn & Suites
8855 SW Citizens Drive
Wilsonville, OR 97070
(503) 682-9000

WASHINGTON

Ashleen Hotel LLC³
GuestHouse Montesano
100 Brumfield Ave. W.
Montesano, WA 98563
(360) 249-4424

WYOMING

8th Ave. Lodging, LLC
GuestHouse Inn & Suites Cheyenne
2512 West Lincolnway
Cheyenne, WY 82001
303-883-0251

1. This location never opened.
2. This location transitioned to SRLHF's Red Lion brand.
3. This location changed ownership in 2021.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

EXHIBIT K

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 for renewal situation]_____

_____. 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, principals, attorneys, 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, obligations, actions, liabilities, defenses or damages of every kind and nature whatsoever (collectively, “Claims”) whether at law or in equity, and known or unknown, which any of the other Releasing Parties had, has, or may have had, in any way 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 the 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.

IF THE 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 the 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 L

AGREEMENT AND CONSENT TO TRANSFER

AGREEMENT AND CONSENT TO TRANSFER

THIS AGREEMENT AND CONSENT TO TRANSFER (the “**Agreement**”) is made as of the Effective Date by and between **Sonesta RL Hotels Franchising Inc.** (“**we**” or “**us**”), _____, a [corporation/limited liability company] whose address is _____ (“**Assignor**”), _____, [an] individual[s] and sole owner[s] of Assignor (“**Assignor Owner[s]**”), _____, a [corporation/limited liability company] whose address is _____ (“**Assignee**”), and _____, [an] individual[s] and sole owner[s] of Assignee (“**Assignee Owner[s]**”). Assignor and Assignor Owner[s] are collectively referred to as the “**Assignor Parties.**” Assignee and Assignee Owner[s] are collectively referred to as the “**Assignee Parties.**” The Assignor Parties and the Assignee Parties are collectively referred to as the “**Franchisee Parties.**” The “**Effective Date**” is the date on which we sign this Agreement as shown beneath our signature on the signature page of this Agreement.

RECITALS

A. We and Assignor are parties to that certain franchise agreement dated _____ (the “**Existing Franchise Agreement**”), pursuant to which Assignor was granted, and assumed the obligation, to own and operate a GuestHouse Extended Stay-branded hotel located at _____ (the “**Hotel**”).

B. Assignor intends to sell to Assignee, and Assignee intends to purchase, the assets of the Hotel and the underlying [premises lease] [real estate] for the Hotel (collectively, the “**Transfer**”). Franchisee Parties expect to consummate the Transfer on _____ but shall be no later than _____ (the “**Outside Date**”). The date that Franchisee Parties actually consummate the Transfer shall be deemed the “**Closing Date.**”

C. Under the Existing Franchise Agreement, the proposed Transfer requires our prior consent. The Franchisee Parties have requested we consent to the Transfer and we are willing to do so on the terms and conditions set forth in this Agreement.

D. Capitalized terms used but not defined in this Agreement have the meanings given to them in the Existing Franchise Agreement.

AGREEMENT

FOR AND IN CONSIDERATION of the foregoing Recitals, the covenants set forth herein and other valuable consideration, receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **Consent to Transfer.** By executing this Agreement and subject to the terms and conditions contained herein, we consent to the. Our consent to the Transfer applies solely to the Transfer as described in this Agreement. We reserve all rights with respect to any subsequent transfer to which rights would apply under the Existing Franchise Agreement or the New Franchise Agreement (defined in Section 4 below). Notwithstanding the foregoing, if any term or condition of this Consent is not met by the Franchisee Parties as of the Closing Date (including any representation or warrant that is not true as of the Effective Date or the Closing Date), or the Transfer is not consummated on or before the Outside Date, we may terminate this Agreement and withdraw our consent to the Transfer.

2. **Representations and Warranties.** The Franchisee Parties, as indicated below, make the following representations and warranties to us as of the Effective Date and as of the Closing Date:

(a) Assignor Parties each, jointly and severally, represent and warrant that: (i) Assignor is a [corporation / limited liability company] that was formed and is in good standing under the laws of the State of _____, (ii) Assignor Owner[s] [is/are] the sole owner[s] of Assignor and are duly authorized to sign on behalf of Assignor, (iii) Assignor is the sole owner of the Hotel, (iv) the Hotel’s assets are free and clear of all liens, (v) Assignor has not previously transferred or assigned the Existing Franchise Agreement, (vi) Assignor is the sole [tenant under the real property

lease for the premises occupied by the Hotel (the “**Lease**”)[owner of the real estate for the premises occupied by the Hotel (the “**Real Estate**”)]; (vii) Assignor Parties, and on behalf of themselves and their employees, contractors and agents, have not used, disclosed or made unauthorized copies of our or our affiliates’ confidential materials or proprietary information, or shared any access codes to any of our or our affiliates’ electronic information and secure websites; (viii) Assignor Parties have not filed a lawsuit or arbitration demand against us, our parent companies or affiliates and have not filed a proceeding, complaint or notice regarding the Hotel, the Existing Franchise Agreement, or us with any federal, state or local regulatory or law enforcement agency, including without limitation, the Federal Trade Commission; and (xi) Assignor Parties are not the subject of any bankruptcy, receivership, composition, assignment or similar proceeding; and

(b) Assignee Parties each, jointly and severally, represent and warrant that: (i) Assignee is a [corporation / limited liability company] that was formed and is in good standing under the laws of the State of _____, and (ii) Assignee[s] [is/are] the sole owner[s] of Assignee.

3. **Termination of Existing Franchise Agreement.** Franchisee Parties agree that the Existing Franchise Agreement is terminated as of the Closing Date and shall thereafter be of no further force or effect except as provided in this Agreement. Notwithstanding the foregoing, Assignor Parties acknowledge that (a) the termination does not affect any obligations under the Existing Franchise Agreement that arose or accrued prior to the Closing Date, and (b) the termination does not affect or release Assignor Parties from, and Assignor Parties hereby agree to comply with, any obligations under the Existing Franchise Agreement that, either expressly or by their nature are intended to survive termination of the Existing Franchise Agreement, including, for example, the post-termination obligations (except those obligations pertaining to the de-imaging of the Hotel) and indemnification obligations with respect to claims arising from or based on events which occurred prior to termination.

4. **New Franchise Agreement.** Assignee shall, concurrently with the execution of this Agreement, execute our current form of franchise agreement and related agreements (to reflect that the agreement is executed in connection with a transfer of the rights under the Existing Franchise Agreement) (the “**New Franchise Agreement**”), and Assignee Owner[s] shall execute the Guaranty and Assumption of Obligations attached thereto. The New Franchise Agreement will govern Assignee’s ownership and operation of the Hotel from and after the Closing Date. If the Transfer is not consummated on or prior to the Outside Date, and we terminate this Agreement and withdraw our consent to the Transfer, then Assignee acknowledges and agrees that the New Franchise Agreement becomes null and void.

5. **Conditions to Consent.** Our consent to the Transfer is conditioned on all of the following terms and conditions being met on or prior to the Closing Date:

(a) All of the representations and warranties made in this Agreement by the Franchisee Parties must be true and correct as of the Closing Date, and the Franchisee Parties further represent and warrant that, upon the consummation of the Transfer: (i) the Hotel’s assets and the [Real Estate / Lease] will be held solely in the name of the Assignee, [and] (ii) neither Assignor nor Assignor Owner[s] provides Assignee or Assignee Owner[s] with any financing in connection with the Transfer[, and (iii) under the Lease, Assignee will have the right to occupy the Hotel’s premises during the entire term of the New Franchise Agreement];

(b) Assignee Parties deliver to us a fully executed New Franchise Agreement and Guaranty and Assumption of Obligations;

(c) Franchisee Parties must provide us with executed versions of any other documents executed by Franchisee Parties to effect the Transfer, and all other information we request about the proposed Transfer, and such Transfer meets all of our requirements and will not adversely affect Assignee’s operation of the Hotel;

(d) If the proposed Transfer requires notice to or approval from any landlord, vendor, lender or governmental authority, the Franchisee Parties have taken such appropriate action and provided us with evidence of the same;

(e) Assignor pays or causes to be paid to us a transfer fee of \$_____, as required under the Existing Franchise Agreement, which shall be fully earned by us and is non-refundable;

(f) Assignor pays or causes to be paid to us \$_____, representing the amounts due and owing to us through the Closing Date, including but not limited to any past due amounts related to [insert as applicable]; and

(g) Franchisee Parties provide us with any other evidence that we reasonably request to show that appropriate measures have been taken to effect the Transfer (including, by obtaining new insurance policies and business licenses) and that Franchisee Parties have the ability to satisfy their obligations under this Agreement, the Existing Franchise Agreement or New Franchise Agreement (as applicable), any and all guarantees thereof, and any related documents executed in connection with any of the foregoing.

6. **Financing.** Regardless of any provision in any other agreement between any of the Franchisee Parties, if Assignor Parties provide financing for any part of any consideration given or to be given by Assignee Parties for the Transfer, Assignor Parties agree that all of Assignee Parties' and/or their affiliates' obligations under promissory notes, agreements, or security interests reserved in the Hotel are subordinate to our rights and Assignee's obligations under the New Franchise Agreement and any guaranty executed by the Assignee Owner[s] pursuant thereto.

7. **Release.** The Franchisee Parties, and each of them, on behalf of themselves and their respective current and former parents, affiliates, and subsidiaries, and each such foregoing person's or entity's respective agents, spouses, heirs, principals, attorneys, 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 such foregoing entity's respective current and former owners, officers, directors, employees, managers, agents, representatives, predecessors, successors, and assigns (the "**Released Parties**"), of and from any and all claims, obligations, debts, proceedings, demands, causes of actions, rights to terminate and rescind, liabilities, losses, damages, and rights of every kind and nature whatsoever (collectively, "**Claims**"), whether at law or in equity, and known or unknown, which any of the Releasing Parties had, has, or may have had, in any way arising out of or relating to any relationship or transaction with any of the Released Parties, however characterized or described, from the beginning of time until the date set forth below each of the Franchisee Parties' signature to this Agreement, including, without limitation, any and all Claims in any way arising out of or relating to the Existing Franchise Agreement, this Agreement, the relationships created by any of the foregoing, or the development, ownership, or operation of the Hotel, or any other agreements entered into between any of the Released Parties and any of the Releasing Parties. The Releasing Parties further covenant not to sue any of the Released Parties on any of the Claims released by this Section, and warrant and represent that they have not assigned or otherwise transferred any Claims released by this Section.

If the Hotel is located in California or if any of the Franchisee Parties are residents of California, the following shall apply:

Section 1542 Acknowledgment. It is the Franchisee Parties' intention, on their own behalf and on behalf of the Releasing Parties, in executing this release that this Section 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 the Franchisee Parties or the Releasing Parties. The Franchisee Parties recognize that they or the Releasing Parties may have some claim, demand, or cause of action against the Released Parties of which he, she, or it is totally unaware and unsuspecting, which he, she, or it is giving up by executing this release. It is the Franchisee Parties' intention, on their own behalf and on behalf of the Releasing Parties, in executing this instrument that it will deprive him, her, or it of

each such claim, demand, or cause of action and prevent him, her, or it from asserting it against the Released Parties. In furtherance of this intention, the Franchisee Parties, on their 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.”

The Franchisee Parties acknowledge and represent that they have consulted with legal counsel before executing this release and that they 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 the Hotel is located in Maryland or if any Franchisee Party is 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.

8. **Acknowledgment.** In agreeing to the Transfer and entering into this Agreement, the Franchisee Parties acknowledge that: (a) they are relying upon their own judgment regarding the suitability of the terms they have negotiated among themselves; (b) they have read, understand, and fully agree to the terms of this Agreement; (c) they have had the time and opportunity to review this Agreement with counsel of their choice; (d) we have made no promise, inducement or agreement or any representations and warranties not expressed herein to procure their agreement hereto; and (e) our sole role in connection with the Transfer has been to exercise our right under the Existing Franchise Agreement to consent to the Transfer, and if we reviewed certain agreements between or among the Franchisee Parties, neither such review nor the execution of this Agreement shall be deemed our approval or endorsement of such documents (or the terms therein) or a modification of any agreement between us or any Franchisee Party.

9. **Governing Law; Dispute Resolution.** This Agreement will be construed and enforced in accordance with, and is governed by, the laws of the Commonwealth of Massachusetts and any disputes arising hereunder shall otherwise be resolved pursuant to Section 15 (Dispute Resolution) of the Existing Franchise Agreement. Each party hereby irrevocably submits to, and waives any objection it might have to, jurisdiction of and venue in the courts of general jurisdiction nearest to our or, as applicable, our successor's or assign's then current principal place of business (currently, Newton, Massachusetts).

10. **Attorneys' Fees.** Each party shall be responsible for their own costs and fees associated with the preparation of this Agreement. However, in the event of a dispute arising under this Agreement, the prevailing party in such dispute shall be entitled to an award of reasonable attorneys' fees, costs and expert witness fees.

11. **Confidentiality of this Agreement.** The Franchisee Parties agree that the existence of this Agreement and its terms are strictly confidential and that, therefore, the Franchisee Parties and the other Releasing Parties shall not provide or disclose to any third party, unless authorized in writing to do so by us or properly directed or ordered to do so by public authority, any information regarding the existence of this Agreement, the terms or conditions contained in this Agreement, or any dealings or negotiations with us or any of the Released Parties related to this Agreement.

12. **Non-Disparagement.** Franchisee Parties agree not to disparage or otherwise speak or write negatively, directly or indirectly, of us or any of the Released Parties, the GuestHouse Extended Stay brand, the GuestHouse Extended Stay franchise system, or any other service-marked or trademarked

concept of ours or of any Released Party, or which would subject the GuestHouse Extended Stay brand to ridicule, scandal, reproach, scorn, or indignity or which would negatively impact our goodwill or that of the GuestHouse Extended Stay brand.

13. **Miscellaneous Provisions.** This Agreement may not be modified or amended or any term hereof waived or discharged except in writing signed by the party against whom such amendment, modification, waiver or discharge is sought to be enforced. The headings of this Agreement are for convenience and reference only and will not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts and sent via email, each of which will be deemed an original but all of which taken together will constitute one and the same instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have signed this Agreement on the dates shown below and made effective as of the Effective Date.

SONESTA RL HOTELS FRANCHISING INC.

ASSIGNOR

By: _____
Name: _____
Title: _____
Date*: _____
(*This is the Effective Date)

By: _____
Name: _____
Title: _____
Date: _____

ASSIGNOR OWNER[S]

By: _____
Name: _____

By: _____
Name: _____

ASSIGNEE

By: _____
Name: _____
Title: _____
Date: _____

ASSIGNEE OWNER[S]

By: _____
Name: _____

By: _____
Name: _____

[Signature Page to Agreement and Consent to Transfer]

EXHIBIT M

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.redlion.com, HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THE WEBSITES MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION AT 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 sentence is added to: (i) the end of the "Remarks" section for the line item entitled, "Late Payment Charge" within the Item 6 Table; and (ii) the end of Item 10:

The highest interest rate allowed in California 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 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 requires application of the laws of the Commonwealth of Massachusetts. This provision may not be enforceable under California law.

The Franchise Agreement contains a liquidated damages clause. Under California Civil Code, Section 1671, certain liquidated damages clauses are unenforceable.

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).

7. The following is added to the end of the Special Risks to Consider About This Franchise page:

Spousal liability: Your spouse will be liable for all financial obligations under the franchise agreement even though your spouse has no ownership interest in the franchise. This guarantee will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.

ILLINOIS

1. The "Summary" section of Item 17(v), entitled **Choice of forum**, is deleted in its entirety.
2. The "Summary" section of Item 17(w), entitled **Choice of law**, is deleted and replaced with the following:

Except for the U.S. Federal Arbitration Act and other federal laws in the U.S., the laws of the state of Illinois apply.

3. The following paragraph is added to the end of Item 17:

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 the Illinois Regulations Section 200.69.

MARYLAND

1. **Initial Fees**. The following is added to the end of Items 5 and 7:

Any release required as a condition of obtaining a refund of the initial fee shall not apply to claims arising under the Maryland Franchise Registration and Disclosure Law.

2. 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.

3. 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. Section 101 et seq.).

4. 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.

5. 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. **Termination Fee and Liquidated Damages.** The Item 6 line items of the Franchise Disclosure Document entitled "Termination Fee Upon Early Termination Following your Default or Termination by you Without Cause," "Special Termination Fee," "Liquidated Damages for Unauthorized Opening" and "Pre-Opening Termination Fee" will not be enforced to the extent prohibited by applicable law.

2. **Trademark Indemnification.** The following paragraph is added to the end of Item 13:

Provided you have complied with all provisions of the Franchise Agreement applicable to the Proprietary Marks, we will protect your rights to use the Proprietary Marks and we also will indemnify you from any loss, costs or expenses from any claims, suits or demands regarding your use of the Proprietary Marks in accordance with Minn. Stat. Sec. 80C.12 Subd. 1(g).

3. **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, 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) 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. **Termination Fee and Liquidated Damages.** The Item 6 line items of the Franchise Disclosure Document entitled "Termination Fee Upon Early Termination Following your Default or Termination by you Without Cause," "Liquidated Damages for Unauthorized Opening" and "Pre-Opening Termination Fee" will not be enforced to the extent prohibited by applicable law.

2. The following is added to the end of Note 9 in Item 6:

Sections of the Franchise Disclosure Document requiring you to pay all costs and expenses incurred by us in enforcing the 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" section of 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 "Summary" section of Item 17(v), entitled **Choice of forum**, is deleted and replaced with the following:

To the extent required by North Dakota Franchise Investment Law, you may bring an action in North Dakota. Otherwise, litigation must be brought in the federal court nearest to our or, as applicable, our successor's or assign's then current principal place of business (currently, Newton, Massachusetts). If the federal court lacks jurisdiction, then such litigation must be brought in the state court nearest to our or, as applicable, our successor's or assign's then current principal place of business (currently, Newton, Massachusetts), unless otherwise mutually agreed by the Parties. However, we may seek injunctive relief in any jurisdiction that has jurisdiction over you.

5. 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 matter is added at the end of Item 3:

In re: Franchise No Poaching Provisions (Red Lion Hotels Franchising, Inc) (Case No. 19-2-33638-2 SEA; State of Washington, King County Superior Court). Beginning in January 2018, the Washington Attorney General launched a sweeping investigation into the use of non-solicitation and no-hire provisions in franchise agreements, with the stated goal of "eliminating no-poach clauses nationwide." The Washington Attorney General asserted that such no-poach provisions violated the Washington Consumer Protection Act. We elected, on December 20, 2019, to enter into an Assurance of Discontinuance ("AOD") to avoid the time and expense of a protracted court action. Other than as a mechanism for the court to approve and enter the AOD, no court proceeding was initiated. Under the terms of the AOD, we agreed to: notify all Guesthouse franchisees that we entered into the AOD, not include no-poach provisions in our future agreements, not enforce such provisions in our existing franchise agreements, exercise reasonable commercial efforts to amend all existing franchise agreements with entities in Washington to remove any no-poach provisions in their existing agreement, and remove those provisions from existing agreements as they came up for renewal or renegotiation. Under its express terms, the AOD is not to be construed as an admission of law, fact, liability, misconduct, or wrongdoing on our part.

3. The following language is added to the end of the "Summary" section of Item 17(d), entitled **Termination by franchisee**:

Franchisee's rights to terminate the Franchise Agreement are subject to state law.

4. The following language is added to the end of Item 17:

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW (the "Act"), will 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 may 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, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Act, in the State of Washington.

A release or waiver of rights executed by a franchisee may not include rights under the Act or any rule or order thereunder, except when executed pursuant to a negotiated settlement

after the 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 the franchisor's reasonable estimated 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 the State of 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 _____, 20____ (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 GuestHouse Extended Stay 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, VENUE AND JURISDICTION.** The first sentence of Section 15.a of the Franchise Agreement is deleted and replaced with the following:

Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§ 1051 et seq.) or the United States Arbitration Act (9 U.S.C. §§ 1 et seq.), this Agreement and any related agreement, all transactions contemplated by this Agreement and any related agreement, and the relationship created by this Agreement, as well as our offer, sale, or negotiation of a GuestHouse Extended Stay franchise or the relationship of the parties arising from the franchise or from entering this Agreement, will be governed by the laws of the State of Illinois.

3. **WAIVER OF EXEMPLARY AND PUNITIVE DAMAGES and JURY WAIVER.** The following language is added to the end of Sections 15.c and 15.d 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.

4. **CLASS ACTION BAR AND LIMITATIONS OF CLAIMS.** The following language is added to the end of Section 15.e 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.

5. **ILLINOIS FRANCHISE DISCLOSURE ACT.** The following language is added as a new Section 15.f of the Franchise Agreement:

f. ***Illinois Franchise Disclosure Act.*** Section 41 of the Illinois Franchise Disclosure Act states that any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of the Act or any other law of Illinois is void.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the date set forth below our signature (the "Effective Date").

YOU:

,
a(n)

By: _____

Printed Name: _____

Title: _____

Date: _____

US:

**SONESTA RL HOTELS FRANCHISING INC.,
a Washington corporation**

By: _____

Printed Name: _____

Title: _____

*Date: _____

*(Effective Date of this Agreement)

**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 _____, 20__ (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 GuestHouse Extended Stay Hotel that you will operate under the Franchise Agreement will be located in Maryland.

2. **RELEASES.** The following is added to the end of Sections 11.b(3)(b)(v) and 17.f of the Franchise Agreement:

Pursuant to COMAR 02.02.08.16L, any release required as a condition of sale, renewal and/or assignment/transfer will not apply to claims arising under the Maryland Franchise Registration and Disclosure Law.

3. **BANKRUPTCY.** The following is added to the end of Sections 14.b(2)(b) and 14.b(2)(d) 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.);

4. **GOVERNING LAW, VENUE AND JURISDICTION.** The following is added to the end of Section 15.a 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 and Maryland law shall apply to such claims arising under the Maryland Franchise Registration and Disclosure Law.

5. **CLASS ACTION BAR AND LIMITATIONS OF CLAIMS.** The following language is added to the end of Section 15.e 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.

6. **REPRESENTATIONS AND WARRANTIES.** The following is added to the end of Section 17.i of the Franchise Agreement:

Your acknowledgments or representations 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.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the date set forth below our signature (the "Effective Date").

YOU:

,
a(n)

By: _____

Printed Name: _____

Title: _____

Date: _____

US:

**SONESTA RL HOTELS FRANCHISING INC.,
a Washington corporation**

By: _____

Printed Name: _____

Title: _____

*Date: _____

*(Effective Date of this Agreement)

**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 _____, 20____ (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 GuestHouse Extended Stay 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 Section 5.b of the Franchise Agreement:

Provided you have complied with all provisions of this Agreement applicable to the Proprietary Marks, we will protect your rights to use the Proprietary Marks and we also will indemnify you from any loss, costs or expenses from any claims, suits or demands regarding your use of the Proprietary Marks in accordance with Minn. Stat. Sec. 80C.12 Subd. 1(g).

3. **RELEASES.** The following is added to the end of Sections 11.b(3)(b)(v) and 17.f of the Franchise Agreement:

Any release required as a condition of sale, renewal and/or assignment/transfer will not apply to the extent prohibited by the Minnesota Franchises Law.

4. **TERMINATION.** The following is added to the end of Sections 13 and 14 of the Franchise Agreement, Sections P (Performance of Agreement), Q (Termination Prior to Opening) and S (Termination after Opening of the Hotel) of Attachment A-1, and Sections Q (Performance of Agreement), R (Termination Prior to Opening), and T (Termination after Opening of the Hotel) of Attachment A-2:

However, with respect to franchises governed by Minnesota law, we will comply with Minnesota Statutes, Section 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 the Agreement.

5. **TERMINATION FEE.** The following is added to the end of Sections 14.c and 14.e of the Franchise Agreement, Sections M (Opening) and R (Pre-Opening Termination Fee) of Attachment A-1 and Section N (Opening) and S (Pre-Opening Termination Fee) of Attachment A-2:

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, VENUE AND JURISDICTION.** The following is added to the end of Section 15.a 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. 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 laws of the jurisdiction provide.

7. **WAIVER OF EXEMPLARY AND PUNITIVE DAMAGES and JURY WAIVER**. If and then only to the extent required by the Minnesota law, Sections 15.c and 15.d of the Franchise Agreement are deleted.

8. **CLASS ACTION BAR AND LIMITATIONS OF CLAIMS**. The following is added to the end of Section 15.e 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.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the date set forth below our signature (the "Effective Date").

YOU:

,
a(n)

By: _____

Printed Name: _____

Title: _____

Date: _____

US:

**SONESTA RL HOTELS FRANCHISING INC.,
a Washington corporation**

By: _____

Printed Name: _____

Title: _____

*Date: _____

*(Effective Date of this Agreement)

**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 _____, 20____ (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 GuestHouse Extended Stay 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 11.b(3)(b)(v) and 17.f of the Franchise Agreement:

However, any release required as a condition of sale, renewal and/or assignment/transfer will not apply to the extent prohibited by the North Dakota Franchise Investment Law.

3. **TERMINATION FEE.** The following is added to the end of Sections 14.c and 14.e of the Franchise Agreement, Sections M (Opening) and R (Pre-Opening Termination Fee) of Attachment A-1 and Section N (Opening) and S (Pre-Opening Termination Fee) of Attachment A-2:

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. **GOVERNING LAW, VENUE AND JURISDICTION.** Section 15.a of the Franchise Agreement is deleted and replaced with the following:

Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§ 1051 et seq.) or the United States Arbitration Act (9 U.S.C. §§ 1 et seq.), and except as otherwise required by North Dakota law, this Agreement and any related agreement, all transactions contemplated by this Agreement and any related agreement, and the relationship created by this Agreement, as well as our offer, sale, or negotiation of a franchise under the Brand or the relationship of the parties arising from the franchise or from entering this Agreement, are governed by, and must be construed and enforced in accordance with, the internal laws of the Commonwealth of Massachusetts, without regard to its conflict-of-laws principles. NOTWITHSTANDING THE FOREGOING, ANY STATUTES OF THE COMMONWEALTH OF MASSACHUSETTS REGULATING THE OFFER OR SALE OF FRANCHISES, BUSINESS OPPORTUNITIES, OR SIMILAR INTERESTS OR GOVERNING THE RELATIONSHIP BETWEEN OR AMONG THE PARTIES TO THIS AGREEMENT, OR BETWEEN US AND YOUR GUARANTORS AND OWNERS, IF ANY, DO NOT APPLY UNLESS THEIR RESPECTIVE JURISDICTIONAL REQUIREMENTS ARE MET INDEPENDENTLY WITHOUT REFERENCE TO THIS SECTION. Any claims, controversies, disputes or actions must be brought in the federal court nearest to our or, as applicable, our successor's or assign's then current principal place of business (currently, Newton, Massachusetts); provided, that, if the federal court lacks jurisdiction, then such claims, controversies, disputes or actions must be brought in the state court nearest to our or, as applicable, our successor's or assign's then current

principal place of business (currently, Newton, Massachusetts), unless otherwise mutually agreed by the parties. You irrevocably submit to the jurisdiction of such courts and waive any objection you might have to either the jurisdiction of or venue in such courts. 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. However, with respect to any action for injunctive relief, the parties may bring such action in any court of competent jurisdiction.

5. **WAIVER OF EXEMPLARY AND PUNITIVE DAMAGES and JURY WAIVER.** To the extent required by the North Dakota Franchise Investment Law, Sections 15.c and 15.d of the Franchise Agreement are deleted.

6. **CLASS ACTION BAR AND LIMITATIONS OF CLAIMS.** The following is added to the end of Section 15.e of the Franchise Agreement:

The statutes of limitations under North Dakota law apply with respect to claims arising under the North Dakota Franchise Investment Law.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the date set forth below our signature (the "Effective Date").

YOU:

,
a(n)

By: _____

Printed Name: _____

Title: _____

Date: _____

US:

SONESTA RL HOTELS FRANCHISING INC.,
a Washington corporation

By: _____

Printed Name: _____

Title: _____

*Date: _____

*(Effective Date of this Agreement)

**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 _____, 20____ (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 GuestHouse Extended Stay 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, VENUE AND JURISDICTION.** The following language is added to Section 15.a 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."

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the date set forth below our signature (the "Effective Date").

YOU:

,
a(n)

By: _____

Printed Name: _____

Title: _____

Date: _____

US:

**SONESTA RL HOTELS FRANCHISING INC.,
a Washington corporation**

By: _____

Printed Name: _____

Title: _____

*Date: _____

*(Effective Date of this Agreement)

**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 _____, 20____ (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 GuestHouse Extended Stay Hotel that you will operate under the Franchise Agreement will be established or maintained in Virginia.

2. **TERMINATION BY EITHER PARTY.** The following is added to the end of Section 14.a(1) 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.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the date set forth below our signature (the "Effective Date").

YOU:

,
a(n)

By: _____

Printed Name: _____

Title: _____

Date: _____

US:

SONESTA RL HOTELS FRANCHISING INC.,
a Washington corporation

By: _____

Printed Name: _____

Title: _____

*Date: _____

*(Effective Date of this Agreement)

**RIDER TO THE SONESTA RL HOTELS FRANCHISING INC.
FRANCHISE AGREEMENT, REPRESENTATIONS AND ACKNOWLEDGMENT 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 _____, 20____ (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 the State of Washington; and/or (b) the GuestHouse Extended Stay Hotel that you 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 Washington Franchise Investment Protection Act, Chapter 19.100 RCW (the "Act"), will 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 may 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, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Act, in the State of Washington.

A release or waiver of rights executed by a franchisee may not include rights under the Act or any rule or order thereunder, except when executed pursuant to a negotiated settlement after the 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 the franchisor's reasonable estimated 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 the State of 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 remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed and delivered this Rider on the dates noted below, to be effective as of the date set forth below our signature (the "Effective Date").

YOU:

,
a(n)

By: _____

Printed Name: _____

Title: _____

Date: _____

US:

SONESTA RL HOTELS FRANCHISING INC.,
a Washington corporation

By: _____

Printed Name: _____

Title: _____

*Date: _____

*(Effective Date of this Agreement)

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:

State	Effective Date
California	Pending
Hawaii	Pending
Illinois	Exempt
Indiana	Pending
Maryland	Pending
Michigan	March 28, 2022
Minnesota	Pending
New York	Exempt
North Dakota	Pending
Rhode Island	Pending
South Dakota	Pending
Virginia	Pending
Washington	Pending
Wisconsin	March 28, 2022

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 N

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 Street, Suite 230, Newton, Massachusetts 02458, (617) 421-5400. The franchise seller for this offering is:

<input type="checkbox"/> Brian Quinn Sonesta RL Hotels Franchising Inc. Two Newton Place 255 Washington St., Suite 230 Newton, Massachusetts 02458 (617) 421-5400	<input type="checkbox"/> _____ Sonesta RL Hotels Franchising Inc. Two Newton Place 255 Washington St., Suite 230 Newton, Massachusetts 02458 (617) 421-5400	<input type="checkbox"/> _____ Sonesta RL Hotels Franchising Inc. Two Newton Place 255 Washington St., Suite 230 Newton, Massachusetts 02458 (617) 421-5400
--	--	--

Issuance Date: March 28, 2022.

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 March 28, 2022 that included the following Exhibits:

Exhibit A - State Administrators/Agents for Service of Process	Exhibit G - Financial Statements
Exhibit B - Franchise Agreement	Exhibit H - Guaranty of Performance
Exhibit C - Guaranty of Franchise Agreement and Notes	Exhibit I - List of Current Franchisee Outlets
Exhibit D-1 - Initial Fee Promissory Note	Exhibit J - List of Franchisee Outlets Terminated, Not Renewed or Who Otherwise Left the System
Exhibit D-2 - Incentive Promissory Note	Exhibit K - Sample General Release
Exhibit E - Table of Contents of Brand Manual	Exhibit L - Consent to Transfer
Exhibit F - Representations and Acknowledgment Statement	Exhibit M - State Addenda and Agreement Riders
	Exhibit N - Receipts

Prospective Franchisee:

If a business entity:

Name of Business Entity

Signature: _____

Title: _____

Print Name: _____

Dated: _____

(Do not leave blank)

If an individual:

Print Name: _____

Dated: _____

(Do not leave blank)

Property located (or to be built) 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.

**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.

The franchisor is Sonesta RL Hotels Franchising Inc., Two Newton Place, 255 Washington Street, Suite 230, Newton, Massachusetts 02458, (617) 421-5400. The franchise seller for this offering is:

- | | | |
|--|--|--|
| <input type="checkbox"/> Brian Quinn
Sonesta RL Hotels Franchising Inc.
Two Newton Place
255 Washington St., Suite 230
Newton, Massachusetts 02458
(617) 421-5400 | <input type="checkbox"/> _____
Sonesta RL Hotels Franchising Inc.
Two Newton Place
255 Washington St., Suite 230
Newton, Massachusetts 02458
(617) 421-5400 | <input type="checkbox"/> _____
Sonesta RL Hotels Franchising Inc.
Two Newton Place
255 Washington St., Suite 230
Newton, Massachusetts 02458
(617) 421-5400 |
|--|--|--|

Issuance Date: March 28, 2022.

See Exhibit A for Sonesta RL Hotels Franchising Inc.'s registered agents authorized to receive service of process.

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- | | |
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Prospective Franchisee:

If a business entity:

Name of Business Entity

Signature: _____

Title: _____

Print Name: _____

Dated: _____

(Do not leave blank)

If an individual:

Print Name: _____

Dated: _____

(Do not leave blank)

Property located (or to be built) 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.