RED LION INNS LIMITED PARTNERSHIP.

FEB 7 2 17 PM '95

February 6, 1995

FEB 9 9 35 AM '95

Federal Election Commission
Office of General Counsel
999 E Street NW
Washington, D.C. 20463

RE: **ADVISORY OPINION**

Dear Madam or Sir:

On behalf of Red Lion Inns, L.P., a publicly traded partnership as defined in Internal Revenue Code Section 7704(b)(1), we hereby request an advisory opinion on the facts presented herein.

Red Lion Inns, L.P. (Red Lion) is registered and traded on the American Stock Exchange. There are over 4.2 million units outstanding and close to 7,000 unitholders. Unitholders are comprised of individuals, IRA's, trusts, partnerships and corporations. The majority of unitholders are not corporations. Red Lion does not have a Political Action Committee, but would like to support the campaigns of individuals running for Congress.

In addition:

(1) Red Lion relies on brokers or other intermediaries to supply ownership information, including whether the investor is an entity (ie partnership, corporation) rather than an individual. This information is not always complete or accurate due to the significant number of investors and reliance on intermediaries. Thus Red Lion would be unable to determine with certainty whether any portion of a contribution were allocable to a corporation.

(2) The amounts in question are small in nature. For example, if Red Lion gave $1,000 to each of 5 political candidates, or a total of $5,000, the amount allocated to each unit would be $.0012. Given the number of units outstanding and unitholders, our average unitholder owns approximately 600 units. Thus the amount allocable to a typical investor would be 73 cents.

P.O. Box 9804, 98666 • 4001 Main Street • Vancouver, Washington 98663 • (206) 696-0001

(3) Special allocation of political contributions to Red Lion's partners would be difficult to implement from a practical standpoint due to the number of units outstanding, and the complexity of our allocation system. The cost to accomplish this allocation would probably exceed the amounts of the political contributions.

(4) Securities and UCC law require units be fungible or uniform. Special allocations of contributions to non-corporate partners would eliminate such fungibility and uniformity.

On the basis of the above facts, we respectfully request an advisory opinion granting a waiver from the reporting requirements outlined under 11 CFR 110.1(e) "Contributions by Partnerships." Red Lion understands that it will still be required to meet the dollar limits for contributions as defined in 11 CFR 100.10 as a "person."

Thank you for your consideration and attention in connection with this matter.

Respectfully yours,

Gregory A. Damico
Vice President-Corporate Taxes

RED LION HOTELS & INNS

RECEIVED
FEDERAL ELECTION
COMMISSION
SECRETARIAT

FEB 14 11 11 AM '95

February 10, 1995

VIA FEDERAL EXPRESS

FEB 13 10 27 AM '95

Mr. Bradley Litchfield
Associate General Counsel
Federal Election Commission
999 E Street NW
Washington, D.C. 20463

RE: Red Lion Inns, L.P.

AOR 1995-06

Dear Mr. Litchfield:

Enclosed please find the original and amended "Certificate of Limited Partnership," filed with Delaware. The amendment was due to a name clarification only. Also enclosed is a copy of the prospectus dated April 7, 1987. There may be items discussed in the prospectus that you will find of interest, in answering your questions.

If you have any further questions, please don't hesitate to call me at (206) 750-4211. Thank you for your assistance.

Very truly,

Gregory A. Damico
Vice President-Corporate Taxes

enclosures

P.O. Box 98666 • 4001 Main Street • Vancouver, Washington 98663 • (360) 696-0001 • (503) 283-5141 • FAX (360) 696-4964

State of Delaware

Office of the Secretary of State

I, WILLIAM T. QUILLEN, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT TO LIMITED PARTNERSHIP OF "RED LION INNS LIMITED PARTNERSHIP" FILED IN THIS OFFICE ON THE FIFTEENTH DAY OF APRIL, A.D. 1993, AT 9 O'CLOCK A.M.

* * * * * * * * * * *

William T. Quillen

William T. Quillen, Secretary of State

AUTHENTICATION: *3881115

931095002

DATE: 04/30/1993

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 09:00 AM 04/15/1993
931095002 - 2115171

CERTIFICATE OF AMENDMENT

TO

CERTIFICATE OF LIMITED PARTNERSHIP

OF

RED LION INNS LIMITED PARTNERSHIP

It is hereby certified that:

FIRST: The name of the limited partnership (hereinafter called the "partnership") is

RED LION INNS LIMITED PARTNERSHIP

SECOND: Pursuant to provisions of Section 17-202, Title 6, Delaware Code, the Certificate of Limited Partnership is amended as follows:

This amendment is to change the paragraph in the Certificate of Limited Partnership relating to the registered agent and registered office address to the following:

UNITED STATES CORPORATION COMPANY
32 Loockerman Square, Suite L-100
Dover, Delaware 19901

The undersigned, a general partner of the partnership, executed this Certificate of Amendment on April 5, 1993.

RED LION PROPERTIES, INC.
, General Partner

By: _____
H. Raymond Bingham
Executive Vice President

AMENDED AND RESTATED

CERTIFICATE OF LIMITED PARTNERSHIP

OF

RED LION INNS, L.P.

(hereafter to be known as Red Lion Inns Limited Partnership)

This Amended and Restated Certificate of Limited Partnership of Red Lion Inns, L.P. (the "Partnership") is being duly executed and filed by Red Lion Properties, Inc., a Delaware corporation (the "General Partner") to amend and restate the certificate of limited partnership previously filed on January 16, 1987, pursuant to §17-210 of the Delaware Revised Uniform Limited Partnership Act (6 Del. C. §17-101 et seq.).

1. The name of the limited partnership formed and continued hereby is Red Lion Inns Limited Partnership.

2. The address of the registered office of the Partnership in the State of Delaware is at Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, and the name and address of the registered agent for service of process on the Partnership in the State of Delaware is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801.

3. The name and mailing address of the sole general partner of the Partnership is:

Red Lion Properties, Inc.
4001 Main Street
Vancouver, Washington 98663

Date: February 3, 1987

RED LION PROPERTIES, INC.

By _____
H. Raymond Bingham
Chief Financial Officer

State of DELAWARE

Office of SECRETARY OF STATE

I, Michael Harkins, Secretary of State of the State of Delaware, do hereby certify that the attached is a true and correct copy of Certificate of Limited Partnership filed in this office on January 16, 1987

Michael Harkins
Michael Harkins, Secretary of State

BY: S. Fuller

DATE: January 20, 1987

Form 130

FILED

JAN 16 1987 9AM

CERTIFICATE OF LIMITED PARTNERSHIP

OF

RED LION INNS, L.P.

This Certificate of Limited Partnership of Red Lion Inns, L.P. (the "Partnership") is being duly executed and filed by Red Lion Properties, Inc., a Delaware corporation (the "General Partner") to form a limited partnership under the Delaware Revised Uniform Limited Partnership Act (6 Del. C. §17-101 et seq.).

1. The name of the limited partnership formed hereby is Red Lion Inns, L.P.

2. The address of the registered office of the Partnership in the State of Delaware is at Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, and the name and address of the registered agent for service of process on the Partnership in the State of Delaware is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801.

3. The name and mailing address of the sole general partner of the Partnership is:

Red Lion Properties, Inc.
4001 Main Street
Vancouver, Washington 98663

Date: JAN 13, 1987

RED LION PROPERTIES, INC.

By _____

Chief Financial Officer

LIMITED PARTNERSHIP AGREEMENT

OF

RED LION INNS, L.P.

This Limited Partnership Agreement of Red Lion Inns, L.P. ("Partnership") is entered into and executed by Red Lion Properties, Inc., a Delaware corporation ("General Partner"), and H. Raymond Bingham ("Limited Partner") (the Limited Partner and General Partner are collectively the "Partners" and individually a "Partner") to form a limited partnership under the laws of the State of Delaware.

1. The name of the limited partnership is Red Lion Inns, L.P.

2. The nature of the business to be conducted by the Partnership is purchasing a limited partnership interest in Red Lion Inns Operating L.P., owning and operating hotels, managing, supervising and disposing of such investments, sharing the profits and losses therefrom and engaging in activities incidental or ancillary thereto.

3. The address of the registered office of the Partnership in the State of Delaware is at Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, and the name and address of the registered agent for service of process on the Partnership in the State

of Delaware is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801.

4. The names and either the business or residence addresses of the General Partner and the Limited Partner are as set forth on the signature page hereof.

5. The amount of cash contributed by the Limited Partner is $990 and by the General Partner is $10.

6. The General Partner has the sole and exclusive right to conduct and manage the Partnership's business.

7. No additional contributions have been agreed to be made by any Partner. The Limited Partner has no power to grant the right to become a limited partner to an assignee of any part of his partnership interest.

8. Except as set forth in paragraph 14, no Partner has a right to withdraw from the Partnership.

9. All Partners have the right to receive distributions from the Partnership of cash upon the sale, exchange or other disposition of assets owned by the Partnership, on the receipt by the Partnership of dividends or interest income, and on the receipt by the Partnership of

other income, and further, the General Partner has the right to make distributions in kind of Partnership assets at such times as it deems appropriate.

10. As described in paragraph 9 above, all of the Partners have the right to receive, and the General Partner has the right to make, distributions to the Partners which include a return of all or any part of a Partner's contribution.

11. The Partnership is to be dissolved and its affairs wound up upon the first to occur of the following:

(a) a determination by the General Partner to terminate the Partnership; or

(b) December 31, 2062.

12. Since there is only one general partner of the Partnership, there is no right of any remaining general partner to continue the Partnership on the happening of an event of withdrawal of a general partner.

13. All profits and losses of the Partnership shall be allocated 99% to the Limited Partner and 1% to the General Partner, and all distributions shall be made in the same proportions. Each Partner shall have a capital account reflecting all such allocations and distributions.

14. The General Partner may admit additional limited partners to the Partnership. Any such admission shall be effected by the execution of an amendment to this

Limited Partnership Agreement by the General Partner and all newly admitted limited partners. In connection with any such admission, on the date of the first such admission (the "Capitalization Date"), the Limited Partner shall be deemed to have withdrawn from the Partnership, shall have his capital contribution returned to him and shall not be required to make any other capital contribution or have any other obligation or right (including the right to distributions) whatsoever with respect to the Partnership.

15. Notwithstanding the provisions of 6 Del. C. §17-209, the General Partner is not required to deliver a copy of this Limited Partnership Agreement to the Limited Partner.

GENERAL PARTNER

Date JAN 13, 1987

Red Lion Properties, Inc.
4001 Main Street
Vancouver, Washington 98663

By

LIMITED PARTNER

c/o Red Lion Properties, Inc.
4001 Main Street
Vancouver, Washington 98663

H. Raymond Bingham

PROSPECTUS

RED LION INNS LIMITED PARTNERSHIP

4,940,000 Units of Limited Partnership Interest

Red Lion Inns Limited Partnership (the "Partnership") is a Delaware limited partnership recently organized for the purpose of owning, through a subsidiary limited partnership, 10 Red Lion Inns, or 11 Red Lion Inns if the Underwriters' over-allotment option is exercised (the hotels actually acquired are hereinafter referred to as the "Hotels"). RL Acquisition Company, a California limited partnership ("Red Lion"), will continue to manage the Hotels. Red Lion Properties, Inc., a wholly-owned subsidiary of Red Lion, is the general partner of the Partnership (the "General Partner"). INVESTORS IN THE PARTNERSHIP WILL NOT ACQUIRE ANY INTEREST IN RED LION AS A RESULT OF PURCHASING UNITS.

The Partnership's investment objectives are to provide investors with increasing distributions of cash flow from operation of the Hotels and the opportunity to participate in any long-term appreciation in the value of the Hotels. During the first two calendar years in which the Partnership conducts operations, distributions to Unitholders of cash flow from operations are not anticipated to be subject to current federal income taxation.

The units of limited partnership interest in the Partnership offered hereby (the "Units") will be evidenced by limited partnership interest certificates therefor. Prior to this offering, there has not been any public market for the Units. The Units have been approved for listing on the American Stock Exchange. For factors considered in the determination of the initial public offering price, see "Underwriting."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

FOR A DISCUSSION OF CERTAIN CONSIDERATIONS IN EVALUATING AN INVESTMENT IN THE PARTNERSHIP, SEE "CERTAIN CONSIDERATIONS."

FINANCIAL FORECASTS ARE CONTAINED IN THIS PROSPECTUS. ANY PREDICTIONS AND REPRESENTATIONS, WRITTEN OR ORAL, WHICH DO NOT CONFORM TO THOSE CONTAINED IN THIS PROSPECTUS SHALL NOT BE PERMITTED.

	Price to Public and Proceeds to the Partnership(1)	Underwriting Discounts and Commissions(2)	Proceeds to Red Lion(1)(3)
Per Unit	$20.00	$1.40	$18.60
Total(4)	$98,800,000	$6,916,000	$91,884,000

(Footnotes on following page)

The Units offered hereby are offered by the several Underwriters, subject to prior sale, when, as, and if delivered to and accepted by the Underwriters, and subject to certain other conditions. It is expected that delivery of the Units will be made in New York, New York, on or about April 14, 1987.

Merrill Lynch Capital Markets

Smith Barney, Harris Upham & Co.
Incorporated

The date of this Prospectus is April 7, 1987

(Footnotes from previous page)

(1) The Partnership will use the gross proceeds of this offering and the proceeds of a mortgage loan to purchase the Hotels. Red Lion has agreed to pay to the Partnership an amount sufficient to enable the Partnership to pay all of its organization and offering expenses (including Underwriting Discounts and Commissions) as well as certain other costs (such as loan commitment fees). However, for tax and financial reporting purposes, the Operating Partnership (as hereinafter defined) will have a basis in the Hotels net of all such expenses and costs. See "Use of Proceeds," "Acquisition of the Hotels" and "Federal Income Tax Considerations—Organization, Syndication and Acquisition Expenses."

(2) The Partnership and Red Lion have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

(3) Before deducting organization expenses and all other expenses of this offering, estimated at approximately $2,771,000.

(4) The Partnership has granted to the Underwriters a 30-day option to purchase up to an additional 580,000 Units, but in no event less than 290,000 Units, at the Price to Public, to cover over-allotments. To the extent the over-allotment option is not exercised in full, Red Lion has agreed to purchase or cause its affiliates to purchase those unsold Units at the Price to Public. If all such Units are purchased by the Underwriters, the aggregate Price to Public and Proceeds to the Partnership will be $110,400,000, the aggregate Underwriting Discounts and Commissions will be $7,728,000 and the proceeds to Red Lion will be $102,672,000. See "Underwriting."

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE UNITS OR THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE AMERICAN STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET, OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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Until July 6, 1987 (90 days after commencement of the offering), all dealers effecting transactions in Units of the Partnership, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

AVAILABLE INFORMATION

The Partnership has filed with the Securities and Exchange Commission, Washington, D.C. (the "Commission"), a Registration Statement under the Securities Act of 1933 (the "Securities Act") with respect to the securities offered hereby. This Prospectus does not contain all of the information set forth in such Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission, and reference is hereby made to the Registration Statement and exhibits relating thereto for further information with respect to the Partnership, the General Partner, Red Lion and the securities to which this Prospectus relates. Summaries and other statements contained herein concerning the provisions of any document are not necessarily complete, and in each instance reference is hereby made to the copy of the document included in this Prospectus or filed as an exhibit to the Registration Statement. Each such summary and other statement is qualified in its entirety by this reference.

No dealer, salesman or any other person has been authorized to give any information or to make any representation other than those contained in this Prospectus, and if given or made, such information and representations must not be relied upon. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any state by anyone not qualified to make such offer or solicitation or to any person to whom it is unlawful to make such an offer in such state. Neither the delivery of this Prospectus nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Partnership since the date hereof.

SUMMARY OF THE OFFERING

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Prospectus. For the definition of certain terms used in this summary and elsewhere in this Prospectus, see "Glossary of Terms."

Introduction

Red Lion Inns Limited Partnership, a Delaware limited partnership (the "Partnership"), has been organized for the purpose of acquiring and owning, through Red Lion Inns Operating L.P., a Delaware limited partnership (the "Operating Partnership"), ten Red Lion hotels (the "10 Hotels"), or 11 Red Lion hotels (the "11 Hotels") if the Underwriters exercise their over-allotment option (the additional hotel hereinafter referred to as the "Additional Hotel" and the hotels actually acquired by the Operating Partnership referred to as the "Hotels"). The Operating Partnership will acquire the Hotels from RL Acquisition Company, a California limited partnership ("Red Lion"). Red Lion will continue to operate and manage the Hotels pursuant to a long-term management agreement (the "Management Agreement").

Red Lion is a full service lodging chain operating in the western half of the United States with 52 hotels (two of which are under construction) offering in excess of 11,800 rooms. Red Lion's unaudited gross assets and net worth at December 31, 1986 were approximately $775 million and $162 million, respectively. The Hotels are full service hotels representative of the Red Lion hotel portfolio. Ten of the 11 Hotels have an operating history of at least four years, and one of the Hotels opened in December 1986. The Hotels will continue to bear the Red Lion name and be afforded the benefits of being part of the Red Lion system. Red Lion Properties, Inc., a wholly-owned subsidiary of Red Lion, will act as the general partner (the "General Partner") of both the Partnership and the Operating Partnership (together, the "Partnerships").

Red Lion's principal objectives in selling the Hotels are to reduce its relative investment in real estate, to reduce its reliance on floating rate debt, to generate capital to expand and promote the "Red Lion" name and to focus its business strategy on managing and operating, rather than owning, hotels.

Investment Objectives

The investment objectives of the Partnership are to provide investors with increasing distributions of cash flow from operation of the Hotels and the opportunity to participate in any long-term appreciation in the value of the Hotels. See "Investment Objectives and Policies."

The General Partner anticipates that during the first two calendar years in which the Partnership conducts operations, distributions to Unitholders of cash flow from operations will not be subject to current federal income taxation.

Red Lion

Red Lion lodging facilities are designed to provide guests with a full range of high-quality hotel accommodations in convenient locations at competitive prices. The majority of the facilities operate under the "Red Lion Inn" name although some of the smaller limited service properties use the "Thunderbird Inn" name.

In April 1985, the Red Lion hotel chain was acquired by a partnership composed of one of Red Lion's founders, a corporation (which holds the majority economic interest in Red Lion) wholly-owned by the Oregon Public Employees Retirement System and the State of Washington State Investment Board, and an affiliate of Kohlberg Kravis Roberts & Co. ("KKR"). Red Lion's five senior operating officers have a combined 75 years of Red Lion experience. Since the acquisition, Red Lion has expanded its management team to include six new senior executives with over 50 years of experience in the hospitality industry at other hotel chains, including Marriott, Westin, Wyndham and Sheraton.

Red Lion competes primarily in the mid-priced sector of the hospitality market, although several of its hotels in various metropolitan areas compete directly with higher-priced hotels. Red Lion has had particular success in establishing its presence in the medium-sized city segment of the hospitality market. Red Lion facilities are convenient to commercial centers or tourist destinations and are typically located near airports or major traffic arteries.

Red Lion targets customers in four major market segments: convention and meeting clients, frequent individual business travelers, local food and beverage guests and pleasure and vacation travelers. Red Lion distinguishes itself from competing hotel chains by providing:

—extensive meeting and convention facilities;

—food and beverage services which attract local clientele as well as hotel guests; and

—oversized guest rooms.

Results of a July 1986 *Consumer Reports* survey of more than 150,000 of its readers ranked only one mid-priced chain ahead of Red Lion in terms of overall customer satisfaction among 20 mid-priced hotel chains.

Red Lion has an ownership interest in 46 of the 52 hotels it operates. Six hotels with a total of 525 rooms in Nevada are operated (except for casino operations), but not owned, by Red Lion. Unless otherwise specifically indicated, information herein regarding Red Lion does not include the Nevada hotels.

The principal executive offices of Red Lion, the Partnerships and the General Partner are located at 4001 Main Street, Vancouver, Washington 98663, and their telephone number is (206) 696-0001.

Structure of the Transaction

After completion of the transactions contemplated hereby, the Partnership will own a 99% partnership interest in the Operating Partnership while the General Partner will own a 1% interest. The Operating Partnership will hold all ownership interests in the Hotels, and Red Lion will continue to manage the Hotels pursuant to the Management Agreement. Both of the Partnerships are Delaware limited partnerships which were organized in January 1987 and will continue in existence until December 31, 2062, unless sooner dissolved or terminated. The Partnerships will use a fiscal year ending December 31.

The Operating Partnership will pay Red Lion $204.67 million for the 10 Hotels (or $228.77 million for the 11 Hotels if the Underwriters' over-allotment option is exercised). Approximately 50% of the price of the Hotels will be paid from the proceeds of this offering and the balance from the proceeds of a mortgage loan (the "Mortgage Loan") in the aggregate amount of $105.87 million (or $118.37 million if the Underwriters' over-allotment option is exercised). See "Use of Proceeds." The Partnership has obtained appraisals of the Hotels from Hospitality Valuation Services, Inc., an independent MAI real estate appraisal firm. The aggregate appraised value of the Hotels exceeds the purchase price of the Hotels. The appraisal is only an estimate of value and does not necessarily represent the true worth or realizable value of the Hotels. See "Acquisition of the Hotels" and "Appraisal."

Red Lion will pay to the Partnership an amount sufficient to enable the Partnership to pay its organization and offering expenses and certain other costs. However, for both tax and financial reporting purposes, the Operating Partnership will have a basis in the Hotels net of all such costs and expenses.

The Hotels

Red Lion and the General Partner selected hotels that are representative of the Red Lion hotel portfolio, taking into account the age and guest capacity of the Hotels, occupancy levels, average daily room rates, profitability, geographic diversity of the Hotels, Red Lion's ability to transfer legal title and the tax consequences to Red Lion. The 10 Hotels have an average of 308 rooms (the 11 Hotels have an

average of 315 rooms) and offer full service accommodations, including restaurants, lounges, banquet and meeting space, on-site parking, room service and valet services. In addition to normal on-going maintenance and refurbishment costs, since January 1, 1984 approximately $8 million has been spent to substantially renovate and upgrade certain of the Hotels. Furthermore, Red Lion has agreed to make approximately $4 million of additional renovations to certain of the 10 Hotels (approximately $4.5 million for the 11 Hotels) at its expense during 1987.

The following table presents certain characteristics of the 10 Hotels, the 11 Hotels and all lodging facilities open for business in the Red Lion system.

	Year Ended December 31, 1986		
	The 10 Hotels	The 11 Hotels	All Red Lion Facilities*
Average Room Age Since Last Remodeling (Years)(1)	3.0	3.3	4.4
Occupancy Percentage(2)(3)	63.8%	64.2%	64.0%
Average Room Rate(2)(4)	$ 54.74	$ 54.23	$ 54.30
Average Gross Revenue per Room per Year(2)(3)	$25,152	$24,765	$25,141
Average Gross Operating Profit per Room per Year(2)(3)	$ 9,074	$ 8,997	$ 8,599

(1) Includes the approximately $4 million of renovations to be completed at certain of the 10 Hotels (approximately $4.5 million for the 11 Hotels) in 1987 at Red Lion's expense.

(2) The Colorado Springs Red Lion Inn and, in the case of all Red Lion facilities, the Fess Parker Santa Barbara Red Lion Resort Hotel were opened for business in December 1986 and their operating results are only reflected for that period.

(3) Calculated on a per available room basis per year.

(4) Based on rooms occupied.

* Excludes Nevada hotels.

Anticipated First-Year Distribution and Financial Forecasts

During the course of each year, the Partnerships intend to distribute all cash flow derived from operations after payment of any direct or indirect operating expenses, debt service, the Base Management Fee (as defined below), the Incentive Management Fee (as defined below) and reserves retained at the discretion of the General Partner. To provide level distributions of cash flow from operations during the quarters of each year, the Partnerships might not distribute in each quarter all cash flow in that quarter, and the General Partner may use various cash management techniques (including bank borrowings by the Partnerships and loans under the non-interest bearing revolving credit facility provided by the General Partner described below) to avoid significant seasonal variations in the quarterly distributions of cash flow.

The General Partner intends to make quarterly distributions within 45 days after the end of each fiscal quarter commencing with the Partnership's first full fiscal quarter of operations. Based upon the Financial Forecast (as defined below), it is anticipated that quarterly distributions in the first 12 months of the Partnership's operations will equal $0.50 per Unit ($2.00 per Unit on an annualized basis), subject to adjustment to reflect the actual number of days between the closing of this offering and the end of the Partnership's first full fiscal quarter of operations. There can be no assurance that revenues will be sufficient to permit quarterly distributions.

In order to facilitate the Partnerships' ability to make increasing minimum distributions of cash flow from operations to Unitholders (the "Priority Distributions"), Red Lion has agreed to subordinate current payment of its Incentive Management Fee to an amount sufficient to make the Priority Distributions to Unitholders as set forth below (assuming no reductions of Net Invested Capital or unexpected Partnership expenses or reserves):

12-Month Period After Closing of Offering	Priority Distribution Amount	Cash Return on Initial Unit Price
First	$2.00	10.00%
Second	$2.05	10.25%
Third	$2.10	10.50%
Fourth	$2.15	10.75%
Thereafter	$2.20	11.00%

If Cash Flow Available for Distribution is insufficient to make the Priority Distributions, the Partnership will utilize a $4 million non-interest bearing revolving credit facility provided by the General Partner through the first 36 months of operations of the Partnership to facilitate making such distributions. No assurance can be given, however, that Unitholders will receive distributions equal to the Priority Distributions. See "Certain Considerations—Contingent Liabilities of the General Partner" and "Investment Objectives and Policies—General Partner Distribution Support."

The Financial Forecast attached hereto as Exhibit A (the "Financial Forecast") represents the General Partner's best estimate of the expected cash flow, taxable loss and operations of the Partnerships for the period April 1, 1987 to March 31, 1988, and the combined statements with respect thereto have been examined by Arthur Andersen & Co., whose report thereon is included as a part of Exhibit A hereto. The Financial Forecast is based on various assumptions described in "Notes and Assumptions to the Combined Financial Forecast" in the Financial Forecast. Some of these assumptions inevitably will not materialize, and unanticipated events may subsequently occur. Therefore, the actual results achieved during the forecast period, April 1, 1987 to March 31, 1988, will vary from the Financial Forecast, and the variations may be material.

Management of the Hotels

The Operating Partnership will enter into the Management Agreement with Red Lion for the day-to-day management of the Hotels. Red Lion will provide the same management services to the Hotels that it renders to the other Red Lion lodging facilities, including a toll-free reservation system, centralized purchasing and training, marketing, sales, advertising, administration, maintenance, accounting and planning programs. See "Management—Operation of the Hotels by Red Lion" and "Summary of the Management Agreement."

As manager of the Hotels, Red Lion will earn a Base Management Fee equal to 3% of the aggregate Gross Revenues of the Hotels. In addition, Red Lion will earn an Incentive Management Fee which will be equal to the sum of (i) 15% of Adjusted Gross Operating Profit up to $36 million for the 10 Hotels ($39.6 million for the 11 Hotels) (the "Operating Profit Target") and (ii) 25% of Adjusted Gross Operating Profit in excess of the Operating Profit Target. Current payment of the Incentive Management Fee in any given year will be subordinate to receipt by the Operating Partnership of an amount from operations sufficient to make the Priority Distributions. However, unexpected expenses or reserves could result in the Partnership using such amounts for purposes other than payment of the Priority Distributions. See "Summary of the Offering—Anticipated First-Year Distribution and Financial Forecasts."

Any Incentive Management Fees which are earned but not paid will be deferred without interest up to a maximum amount of $6 million at any one time and will be repaid out of either (i) 25% of cash flow from operations in any given year in excess of amounts sufficient to pay debt service on the original

Mortgage Loan, a $10 million revolving credit line, the Priority Distribution and the current Incentive Management Fee, or (ii) Sale or Refinancing Proceeds prior to any distributions to Unitholders. As a result, Red Lion will not be entitled to earn or accrue any Incentive Management Fees greater than those currently payable, to the extent such accrual would cause the amount of deferred and unpaid Incentive Management Fees to exceed $6 million at any one time. To the extent that the amount of deferred and unpaid Incentive Management Fees is reduced below $6 million, additional deferred amounts may accrue and be paid. See "Summary of the Management Agreement—Compensation."

The Operating Partnership will pay or reimburse Red Lion for chain services provided to the Hotels and for all operating expenses of the Hotels that are paid or incurred by Red Lion. Charges for chain services will be allocated pro rata on a nondiscriminatory chain-wide basis.

Partnership Sharing Arrangements

Distributions from the Operating Partnership. The percentage distributions described below give effect to the distributions to be made to the General Partner from the Operating Partnership and present the distributions of the Partnerships on a combined basis. The Operating Partnership will distribute its Cash Flow Available for Distribution and any proceeds of Sales or Refinancings 99% to the Partnership and 1% to the General Partner. The percentages of Cash Flow Available for Distribution and Sale and Refinancing proceeds effectively received by Unitholders will be less than the percentages described in the Partnership Agreement with respect to distributions made by the Partnership due to the fact that the Partnership holds a 99% interest in the Operating Partnership. See "Glossary of Terms" for an explanation of the calculation of "Cash Flow Available for Distribution" and "Sale or Refinancing Proceeds."

Distributions from Operations. Cash Flow Available for Distribution and amounts, if any, borrowed under the non-interest bearing revolving credit facility provided by the General Partner will be distributed each year as follows:

First, until the Unitholders have received a 12% non-compounded return on their Net Invested Capital for such year, 98.01% to the Unitholders and 1.99% to the General Partner; and

Thereafter, 70% to the Unitholders and 30% to General Partner.

Distributions from Sales or Refinancings. The Management Agreement and the Partnership Agreements provide that proceeds from Sales or Refinancings of Hotels will be used first to pay any deferred Incentive Management Fees and second to repay amounts outstanding under the non-interest bearing revolving credit facility provided by the General Partner. Any remaining Sale or Refinancing Proceeds (after payment of other indebtedness and expenses and establishment of reserves) will be distributed as follows:

First, 98.01% to the Unitholders and 1.99% to the General Partner until all Unitholders have received, together with all prior distributions of Cash Flow Available for Distribution and Sale or Refinancing Proceeds other than distributions pursuant to clause second below, a cumulative non-compounded return on the weighted average balances of their Net Invested Capital, as adjusted from time to time, equal to 12% per annum;

Second, 98.01% to the Unitholders and 1.99% to the General Partner until the Unitholders have received, together with all prior distributions of Sale or Refinancing Proceeds other than distributions pursuant to clause first above, a return of their Net Invested Capital (the "Capital Return Date"); and

Thereafter, 70% to the Unitholders and 30% to the General Partner.

Generally distributions resulting from a liquidation of the Partnership's interest in the Operating Partnership will be made in the same manner as distributions from Sales or Refinancings, subject to the overall requirement that such distributions be made to Partners in accordance with their positive capital account balances.

Tax Allocations. Taxable loss generally will be allocated 1.99% to the General Partner and 98.01% to the Unitholders. Taxable income will generally be allocated first to restore previously allocated losses and thereafter in a manner that reflects, to the extent possible, previous and concurrent distributions (other than distributions constituting a return of Net Invested Capital). The Partnership intends to allocate tax items on a monthly interim-closing-of-the-books basis, with the holder of a Unit on the last day of the month being treated as the holder of such Unit for the entire month. If a Unitholder transfers a Unit prior to the record date for distribution, such Unitholder may be subject to tax on part or all of the income or gain attributable to the period or transaction giving rise thereto, but not be entitled to receive the cash to be distributed as a result thereof.

Debt Financing

The Hotels will be acquired by the Operating Partnership with funds provided, in part, by a Mortgage Loan from United States National Bank of Oregon ("USNB") and Canadian Imperial Bank of Commerce ("CIBC") (collectively the "Banks"). Pursuant to the terms of the loan agreement between the Operating Partnership and the Banks, the Mortgage Loan will be in the amount of $105.87 million ($118.37 million if the Underwriters' over-allotment option is exercised) and will be made on a non-recourse basis. The Mortgage Loan will bear interest at the rate of 9% per annum and will have a term of eight years. Interest only will be payable monthly in arrears for five years, and interest and principal will be payable monthly thereafter. The Mortgage Loan will be secured by a first lien on the Hotels.

USNB and CIBC have also agreed to provide an eight-year $10 million revolving credit line, to be used as necessary to fund the working capital and other cash needs of the Partnerships. This credit line will bear interest at a floating rate and will also be secured by a first lien on the Hotels. See "Acquisition of the Hotels."

The General Partner will provide, during the Partnership's first 36 months of operations, a $4 million non-interest bearing revolving credit facility to the Partnership to the extent Cash Flow Available for Distribution is insufficient to make the Priority Distributions. See "Investment Objectives and Policies—General Partner Distribution Support."

Depreciation Methods and Other Tax Elections

Except to the extent any portion of the Hotels constitutes tax-exempt use property under Section 168(h) of the Internal Revenue Code ("Code") (which portion will likely be at least 30% due to the status of the General Partner), the Operating Partnership intends for tax purposes to depreciate its personal property under an accelerated method of depreciation over five or seven years and its real property on a straight-line basis over 31½ years. After 1987, the Partnerships will make an election under Section 754 of the Code if at any time the average closing price of the Units over a period of 60 trading days exceeds 125% of the initial public offering price of the Units, unless such election is not advantageous to the Unitholders. The General Partner will have authority to make such other tax elections as it considers appropriate. The Partnerships will select the calendar year for their tax and fiscal years. See "Federal Income Tax Considerations—Election under Section 754."

Certain Considerations

An investment in the Units involves certain risks. See "Certain Considerations," "Conflicts of Interest" and "Federal Income Tax Considerations." Investments in Units may not be appropriate for individual retirement accounts or other tax-exempt entities. See "Certain Considerations—Considerations Relating to Employee Benefit Plans and Individual Retirement Accounts," "Employee Benefit Plans and Individual Retirement Accounts" and "Federal Income Tax Considerations—Exempt Employee Trusts, Individual Retirement Accounts and Other Tax-Exempt Entities."

Transferability

The Units have been approved for listing on the American Stock Exchange. Subject to any limitations imposed by applicable securities laws, Units will be transferable without restriction. Purchasers of Units in this offering and subsequent holders of Units will be bound by the Partnership Agreement. The Partnership Agreement contains provisions enabling the Partnership to redeem Units of a Unitholder who has failed to provide information to liquor licensing authorities to establish his suitability, or has been found unsuitable, to hold Units in light of such states' policies in regulating the holding of liquor licenses. See "Summary of the Partnership Agreements" and "Description of the Units—Transfer of Certificates."

Effect of Alternative Inflation Rates
On Investment—Hypothetical Internal Rates of Return

The return to a Unitholder from an investment in the Partnership will depend upon a number of factors, including those described in this Prospectus. See "Certain Considerations," "Conflicts of Interest," "The Hotels," "Red Lion" and "Federal Income Tax Considerations." Two of the most important factors that affect the return to a Unitholder are (1) the rate of growth, if any, in the operating revenues and expenses of the Hotels and (2) appreciation, if any, realized upon Sale or Refinancing of Hotels. The table below illustrates the alternative hypothetical internal rates of return from an investment in the Partnership for the 11 Hotels over the first ten years of the Partnerships' operations if the assumptions were to materialize under six different inflation rate scenarios (0%, 2%, 4%, 6%, 8% or 10% per annum). The inflation rates shown are only mathematical rates of increase in revenues and expenses commencing in the second year of operations, without regard to the cause thereof, and are not intended to refer to any specific economic index or indicator. THE TABLE IS NOT A PROJECTION OR FORECAST OF THE ACTUAL OR ESTIMATED RESULTS FROM AN INVESTMENT IN THE PARTNERSHIP. INSTEAD, THE PURPOSE OF THE TABLE AND THE ACCOMPANYING EXPLANATION OF THE PARTNERSHIPS' FUTURE PERFORMANCE IS INTENDED TO ILLUSTRATE THE SENSITIVITY OF THE INTERNAL RATES OF RETURN TO VARIATIONS IN THE RATES OF INFLATION, IF ANY. NO ASSURANCE IS OR CAN BE PROVIDED THAT ANY OF THESE VARIABLES WILL NOT DECLINE OR WILL NOT GROW AT SOME RATE OTHER THAN ONE OF THE SIX RATES USED FOR PURPOSES OF THE TABLE.

To illustrate meaningfully the effects of changes in the rate of inflation, if any, the Partnerships have made various assumptions (including certain simplifying assumptions, as well as assumptions of growth in revenues and expenses before giving effect to the inflation assumptions set forth below) with respect to other factors affecting their operations. See "Effect of Alternative Inflation Rates on Investment—Hypothetical Internal Rates of Return—Assumptions." While recognizing the uncertainties associated with each of the factors for which such assumptions are made, the Partnerships and the General Partner believe the assumptions are reasonable in the aggregate, given the specific purpose for which the table is presented and the ten-year period covered by the table. NEVERTHELESS, CERTAIN OF THESE ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE, AND VARIOUS EVENTS AND CIRCUMSTANCES THAT WILL AFFECT THE VALIDITY OF THESE ASSUMPTIONS ARE LIKELY TO OCCUR. ACTUAL RESULTS WILL VARY FROM ASSUMPTIONS AND THE VARIATIONS MAY BE MATERIAL. The alternative hypothetical internal rates of return set forth in the table are computed on a pre-tax basis and do not take into account any income taxes that a Unitholder may be required to pay with respect to Partnership income allocated to the Unitholders or cash distributions made to the Unitholders. See "Federal Income Tax Considerations."

Hypothetical Internal Rates of Return Under Alternative Inflation Rate Scenarios Over the First Ten Years of the Partnerships' Operations

Hypothetical Assumed Annual Inflation Rates	Hypothetical Internal Rates of Return on a Pre-Tax Basis
0%	8.6%
2%	12.2%
4%	14.3%
6%	16.3%
8%	18.3%
10%	20.5%

The "internal rate of return" represents the discount rate that must be applied to a cash flow stream over a period of time from an investment in order for the present value of that discounted cash flow stream to equal the amount of the original investment. Although internal rates of return are commonly used for comparing alternative investment opportunities, an internal rate of return does not represent the actual rate of return to an investor from an investment opportunity over the term of the investment (even assuming that all cash flows are received as and when assumed in the calculation). AN INVESTOR'S ACTUAL RATE OF RETURN OVER THE TERM OF AN INVESTMENT WOULD CORRESPOND TO THE INTERNAL RATE OF RETURN ONLY IF THE ASSUMPTIONS WERE IDENTICAL WITH ACTUAL RESULTS AND IF THE INVESTOR WERE ABLE TO TAKE EACH PAYMENT OF CASH FLOW AND REINVEST THAT PAYMENT IMMEDIATELY IN ANOTHER INVESTMENT HAVING AN ACTUAL RATE OF RETURN EQUAL TO THE INTERNAL RATE OF RETURN APPLICABLE TO THE ORIGINAL INVESTMENT. ACTUAL RESULTS WILL INEVITABLY VARY FROM THE ASSUMPTIONS AND NO ASSURANCE CAN BE GIVEN THAT AN INVESTOR WILL BE ABLE TO REINVEST ANNUAL DISTRIBUTIONS OF CASH FLOW AT A RATE EQUAL TO THE HYPOTHETICAL INTERNAL RATE OF RETURN.

USE OF PROCEEDS

The gross proceeds to the Partnership from the sale of Units offered hereby are estimated to be approximately $98.8 million ($110.4 million in the event the Underwriters exercise their over-allotment option). All such proceeds will be used to purchase a 99% limited partnership interest in the Operating Partnership. The Operating Partnership will use all of such proceeds plus the proceeds of the Mortgage Loan to purchase the Hotels. Red Lion has agreed to pay the Partnership an amount sufficient to enable the Partnership to pay all of its organization and offering expenses (including Underwriting Discounts and Commissions), as well as certain other costs (such as loan commitment fees). However, for tax and financial reporting purposes, the Operating Partnership will have a basis in the Hotels net of all such expenses and costs. See "Acquisition of the Hotels."

CERTAIN CONSIDERATIONS

The purchase of Units involves certain risks and other factors, in addition to the general risks inherent in any investment, which prospective investors should carefully consider.

1. GENERAL CONSIDERATIONS

Real Estate Ownership

The Partnerships' investment in the Hotels will be subject to the risks generally incident to the ownership and leasing of real estate, including those relating to the uncertainty of cash flow to meet fixed obligations, adverse changes in national economic conditions, adverse changes in local market conditions, changes in interest rates, the availability of financing for operating or capital needs, changes in real estate tax rates and other operating expenses, termination of a lease or interference by a lessor, adverse changes in governmental rules and fiscal policies, acts of God (which may result in uninsured losses), condemnation and other factors that are beyond the control of the General Partner.

Ownership and Operation of Hotels

There are special factors beyond the control of the Partnerships, the General Partner and Red Lion generally inherent in investments in hotels and lodging facilities (including the Hotels). These factors may cause operating results of wider variation for hotels than for other types of properties. These factors include the following:

1. Hotels are capital intensive. In order to remain competitive, facilities must be maintained, modernized, and refurbished on an ongoing basis. This increases the need for capital funds (whether from reserves, current cash flow or debt financing) and thereby increases the sensitivity of the investment to the cost and availability of such funds, while decreasing operating revenues as facilities are removed from service periodically. The Partnerships will be subject to risks associated with the control of construction costs and contractors' abilities to perform in accordance with plans, specifications and timetables. For this purpose and in anticipation of such expenditures, a reserve will be maintained pursuant to the Management Agreement to pay for the renovation and refurbishing of all the Hotels. In addition, Red Lion has agreed to make approximately $4 million of renovations to certain of the 10 Hotels (approximately $4.5 million for the 11 Hotels) in 1987 at its own expense. See "Summary of the Management Agreement—Maintenance, Repairs and Capital Improvements" and "The Hotels—Refurbishing and Renovations."

2. The demand for particular accommodations and related services may vary seasonally and may be affected by changes in economic conditions, changes in travel patterns and preferences (which may be affected by airlines schedules, strikes, weather conditions and energy cost or availability) and other factors. In particular, reduced business activity and a deteriorating local economy in a particular area will most likely adversely affect the occupancy rate of a Hotel in that area and may restrict the rate such Hotel may charge for its rooms. In addition, the Colorado Springs Red Lion Inn, which opened in December 1986, has no operating history and will be subject to the usual risks associated with starting operations in a new market.

3. Compared to other types of real estate properties, hotels have more extensive assets, require more employees, rely more on suppliers and serve more customers. Thus, hotels may have greater exposure to liability for, among other things, theft of property and other casualty and property loss, labor difficulties and personal injuries. In this respect, many businesses, including those in the lodging industry, have experienced recent increases in insurance costs while availability of coverage has decreased. This has resulted in cost escalation and reductions in amounts of coverage available. Although the General Partner anticipates insurance costs will decrease in 1987 as compared to 1986, continuation of the prior upward cost trend could render certain types of desired coverage unavailable at commercially reasonable rates with the attendant possibility that certain claims may exceed coverage. In particular, it is not currently possible to obtain earthquake insurance which will cover one hundred percent of replacement costs in all cases. See "Summary of the Management Agreement—Insurance."

4. Inflationary pressures can increase operating expenses, including labor and energy costs, above expected levels and beyond the Partnership's ability to pass such costs on to customers through increased room charges. This can have secondary effects upon occupancy rate by increasing the expense or decreasing the availability of travel. Although the inflation rate has been low recently, it may increase significantly during the term of the investment in the Partnerships.

5. Each of the Hotels operates in areas containing other hotels which are competitive, including, in certain cases, other Red Lion facilities. Future competition may be affected by periodic overbuilding, changes in local market conditions, neighborhood characteristics or changes in travel patterns and preferences. These factors can affect occupancy levels, room rates, food and beverage revenues and expenses.

Increase in Assessed Valuation

Acquisition of the Hotels by the Operating Partnership may result, under local law, in increased assessed valuation of the Hotels, including the land on which a Hotel may be located, which, in turn, may lead to increases in property taxes. The General Partner does not have sufficient information to make an accurate assessment of the amount of any such increases, but, based on information currently available, does not expect any such increase to have a material adverse effect on the results of operations of the Hotels.

Leverage

The purchase of the Hotels by the Operating Partnership is being financed with an eight-year, $105.87 million Mortgage Loan from USNB and CIBC (or a $118.37 million Mortgage Loan if the Underwriters' over-allotment option is exercised), representing approximately 50% of the purchase price of the Hotels. A significant portion of the principal outstanding under the Mortgage Loan will be due in one payment at the end of the term. See "Use of Proceeds" and "Acquisition of the Hotels." Such financing, the revolving credit facility and any future borrowings will increase the sensitivity of the investment to certain adverse developments. No assurance can be given that the Operating Partnership will be able to refinance the Mortgage Loan when it is due in eight years or that any such refinancing will be on favorable terms. Any such refinancing which results in increased debt service will result in a corresponding decrease in the amount of cash available to make Priority Distributions to which payment of the Incentive Management Fee will be subordinate. In addition, in the event that funds generated by the operation of the Hotels are not sufficient to make debt service payments on the Mortgage Loan or in the event that the Mortgage Loan cannot be refinanced when due, the mortgages on the Hotels may be foreclosed. Any such foreclosure could result in a loss by Unitholders of their entire investment and in substantial adverse tax consequences. See "Acquisition of the Hotels," and "Federal Income Tax Considerations—Disposition of Partnership Property."

In addition, the terms of the Mortgage Loan will impose certain restrictions which may affect the sale and operation of the Hotels. The terms of the Mortgage Loan may also limit the actions that may be taken by the Partnerships in the event of a casualty loss or condemnation of a Hotel.

Ground Leases

Two of the Hotels are located on land leased in whole or in part from third parties pursuant to long-term ground leases. Although the lessors have only limited rights to terminate such leases other than for non-payment of rent, any such termination could have substantial adverse consequences to the Partnerships. In addition, the leases require the consent of the lessor prior to transfer of the leasehold interest, and consequently may impair the ability of the Partnerships to transfer such Hotels. See "The Hotels—Ground Lease Provisions."

Sale Value of the Hotels

The value of the Hotels upon a Sale or Refinancing will depend upon a number of factors, many of which are beyond the control of the Partnerships, the General Partner and Red Lion. Such factors include those described above and broader economic issues such as the investment climate at the time and the tax treatment applicable to the parties to a Sale. The terms of the Management Agreement, including Red Lion's right of first refusal to purchase the Hotels, as well as its rights in the event of casualty or condemnation of a Hotel, may affect the potential sale value of the Hotels by reducing the number of potential bidders for a Hotel. In addition, two of the Hotels are subject to ground leases which may impair the marketability of such Hotels. See "Summary of the Management Agreement—Transfer of Ownership", "The Hotels—Ground Lease Provisions" and "Conflicts of Interest—Purchase of Hotels by Red Lion."

Conflicts of Interest

The Partnerships are subject to various conflicts of interest arising out of their relationship with the General Partner and its Affiliates, including, in particular, conflicts of interest arising as a result of the selection of the Hotels by Red Lion and the General Partner and the acquisition of the Hotels from Red Lion and as a result of the Management Agreement entered into between Red Lion and the Operating Partnership. As a result of such conflicts, certain actions or decisions of the parties, particularly the General Partner, may have an adverse effect on the interests of the Unitholders. See "Conflicts of Interest."

2. TAX CONSIDERATIONS

The following is a brief summary of the principal tax risks of an investment in the Partnership. For a more detailed summary of the federal income tax consequences and attendant risks of an investment in the Partnership, see "Federal Income Tax Considerations."

Changes in Tax Laws

The Internal Revenue Code (the "Code") has been frequently and substantially revised in recent years. For example, the Code was revised in 1981, 1982, 1984 and most recently, by the Tax Reform Act of 1986 (the "1986 Act"). Many of these changes have not yet been authoritatively interpreted by regulations or court decisions, and their application to an investment in the Partnership is uncertain. Furthermore, the Code may be amended substantially in the future and such amendments could adversely and significantly affect Unitholders.

Partnership Status

Favorable federal income tax treatment of the Partnerships is dependent upon the classification of the Partnerships as partnerships and not as associations taxable as corporations for federal income tax purposes. Although it is the opinion of Latham & Watkins, counsel to the Partnerships ("Counsel"), that the Partnerships will be classified as partnerships for tax purposes, such opinion is not binding upon the Internal Revenue Service (the "IRS") and no advance ruling from the IRS as to such status has been or will be requested. It is possible that the IRS could propose to treat either or both of the Partnerships as an association taxable as a corporation. If such a challenge were successful with respect to either Partnership, its taxable income would be subject to the corporate income tax at the partnership level, and any cash distributions would be treated as taxable dividends to the extent of its current and accumulated earnings

and profits. In addition, Unitholders would not be entitled to deduct their proportionate shares of the Partnership's net loss, if any, in their income tax returns. See "Federal Income Tax Considerations—Tax Status of the Partnerships."

Although the 1986 Act does not address the status of large, publicly traded partnerships, such as the Partnership, both Congress and the Treasury Department have in the past and may in the future consider proposals that could have the effect of causing such partnerships to be treated as associations taxable as corporations. Any such proposal, if adopted, could be applicable to the Partnership (even though it existed prior to adoption of such proposal), and there is no assurance that the Partnership could avoid or mitigate the effects of such proposals. Congressional hearings to consider the taxation of "pass-through" entities, including publicly traded limited partnerships, have been scheduled for Spring 1987. See "Federal Income Tax Considerations—Tax Status of the Partnerships."

Losses from Passive Activities

Under the 1986 Act, losses from business activities (including interest expense incurred to purchase an investment in a business activity) in which a taxpayer who is an individual, estate, trust or personal service corporation does not materially participate ("Passive Losses") are allowable only to the extent of the taxpayer's income from other such passive activities. Thus, Passive Losses cannot be used to offset earned income, active business income or portfolio income (such as dividends, interest, royalties and nonbusiness capital gains). Any Partnership losses allocable to the Unitholders will be Passive Losses. See "Federal Income Tax Considerations—Federal Taxation of a Partnership and its Partners—Tax Basis; Limitations on Loss Deductions."

Depreciation Deductions

The General Partner (due to the composition of its direct and indirect stockholders) appears to be a tax-exempt entity for purposes of the depreciation provisions of the Code. In addition, although an investment in the Units may be unsuitable for tax-exempt entities, there can be no assurance that such entities will not in fact purchase Units. To the extent that interests in the Partnership are owned by tax-exempt entities, such as the General Partner, that are not subject to the tax on unrelated business taxable income, a corresponding portion of the Operating Partnership's property may be treated as "tax-exempt use property", with the result that such portion of the Operating Partnership's real and personal property would have to be depreciated over significantly longer periods than would otherwise be the case and that, as to such portion of its personal property, accelerated depreciation would not be available. See "Federal Income Tax Considerations—Depreciation, Cost Recovery and Amortization Deductions—Tax-Exempt Use Property."

Audit

Federal income tax information returns filed by the Partnerships are subject to audit by the IRS. Audit by the IRS of the tax treatment of partnership items is conducted at the partnership level rather than the partner level. A Unitholder may, in some cases, be bound by a determination made by the IRS at the partnership level or by a judicial decision against either of the Partnerships even if such Unitholder has not participated therein. An audit of either of the Partnerships may lead to an audit of a Unitholder's federal income tax return, which may lead to adjustments other than those relating to an investment in the Partnership. Alternatively, an audit of a Unitholder's federal income tax return may lead to an audit of the information returns filed by the Partnerships. Moreover, the tax position of the General Partner may be substantially different from that of the Unitholders, which could result in a conflict in connection with the conduct of an audit by the IRS. The Partnerships will not be responsible for paying any expenses incurred by a Unitholder in connection with either a federal or state audit of the Unitholder's individual tax return or the Unitholder's participation in an audit of either of the Partnerships' information returns or in a subsequent judicial proceeding. See "Federal Income Tax Considerations—Partnership Tax Returns and Possible Audit."

Tax Liability Exceeding Cash Distributions or Cash Proceeds from Dispositions

Unitholders will be required to pay federal income tax and, in certain cases, state and local income taxes on their distributive shares of the Partnership's income, whether or not they receive cash distributions from the Partnership. See "Federal Income Tax Considerations—Federal Taxation of a Partnership and

its Partners—Cash Distributions," and "Federal Income Tax Considerations—Federal Taxation of a Partnership and its Partners—Partnership Allocations." In addition, the Unitholders may be required to recognize gain in connection with an installment sale or upon a sale or foreclosure of the Partnerships' property in an amount that exceeds the amount of cash received. Accordingly, the federal income tax payable by the Unitholders upon any such sale or foreclosure may exceed the proceeds of such disposition. See "Federal Income Tax Considerations—Disposition of Partnership Property."

Termination of the Partnership for Tax Purposes

If 50% or more of the capital and profit interests in the Partnership are sold or exchanged within a single 12-month period, the Partnership will terminate for tax purposes. Such a termination could result in adverse tax consequences. Among other things, the Partnership or its assets could become subject to unfavorable statutory or regulatory changes (such as legislation which would treat widely-held or publicly-traded partnerships as corporations) which were enacted prior to such termination but were not previously applicable because of protective transitional or "grandfather" rules. See "Federal Income Tax Considerations—Termination of the Partnership for Tax Purposes."

Penalty for Substantial Understatement

After 1986, a 25% penalty will be imposed on certain "substantial understatements" of tax liability in addition to the interest which is normally payable on underpayments of tax. Interest is charged on the penalty from the due date of the return until the date of the payment of the penalty. If the tax liability of a Unitholder is increased as a result of an audit of either of the Partnerships, such Unitholder may become liable for this penalty. See "Federal Income Tax Considerations—Penalty Applicable to a Substantial Understatement of Tax."

THE FOREGOING IS A SUMMARY OF CERTAIN SIGNIFICANT FEDERAL INCOME TAX RISKS RELATING TO AN INVESTMENT IN THE PARTNERSHIP. THIS SUMMARY SHOULD NOT BE INTERPRETED AS A REPRESENTATION THAT THE MATTERS REFERRED TO HEREIN ARE THE ONLY TAX RISKS INVOLVED IN THIS INVESTMENT OR THAT THE MAGNITUDE OF SUCH RISKS IS NECESSARILY EQUAL. FOR A MORE DETAILED DISCUSSION OF THE FEDERAL INCOME TAX RISKS OF AN INVESTMENT IN THE PARTNERSHIP, SEE "FEDERAL INCOME TAX CONSIDERATIONS."

3. CONSIDERATIONS RELATING TO EMPLOYEE BENEFIT PLANS AND INDIVIDUAL RETIREMENT ACCOUNTS

An investment in Units may not be appropriate for certain employee benefit plans or individual retirement accounts. See "Federal Income Tax Considerations—Exempt Employee Trusts, Individual Retirement Accounts and Other Tax-Exempt Entities" and "Employee Benefit Plans and Individual Retirement Accounts."

4. OTHER CONSIDERATIONS

Contingent Liabilities of the General Partner

The General Partner is liable for the general obligations of the Partnerships (other than the Mortgage Loan and other nonrecourse indebtedness). In addition, the General Partner is liable to the Partnerships for its deferred capital contributions, and the General Partner has committed to loan funds to the Partnership under certain circumstances. Although the General Partner has agreed to use all reasonable efforts to insure that its net assets will remain at a level sufficient to meet certain existing tax requirements (see Section 6.14 of the Partnership Agreement), there is no assurance that such requirements will not be changed. Also, the General Partner may become a general partner of other partnerships and subject to liabilities on behalf of such other partnerships in the future. There is no assurance the General Partner will have sufficient capital to meet these obligations.

Lack of Participation in Management

Unitholders will have no rights or powers to participate in the management of the Partnerships. All decisions with respect to the management of the Partnerships will be made by the General Partner. Moreover, the Unitholders will not be able to remove the General Partner except with the consent of Unitholders owning 75% or more of the Units, unless such removal is for cause (defined generally as a final judicial determination of actual fraud, gross negligence or willful and wanton misconduct), in which case the consent of Unitholders owning 60% or more of the Units is required. Accordingly, no person should purchase Units unless such person is willing to entrust all aspects of the management of the Partnerships to the General Partner.

Term of the Management Agreement

Under the terms of the Management Agreement, Red Lion will be entitled and obligated to manage the Hotels for an initial term of 25 years, subject to extension for up to 50 additional years at Red Lion's option. This could be an advantage or disadvantage to the Partnerships in their efforts to sell any Hotels. If it were considered an advantage by a potential purchaser to have Red Lion manage the Hotels, there is the risk that the Management Agreement could be terminated by Red Lion under certain limited circumstances or that Red Lion may decline to renew the Management Agreement at the end of the initial term or any subsequent five-year term. If it were considered a disadvantage, there is the risk that Red Lion could not be replaced as manager since the Management Agreement may be terminated by the Operating Partnership only in certain limited circumstances. The terms of the Management Agreement may affect the marketability of the Hotels or the price a purchaser may be willing to pay. See "Summary of the Management Agreement—Termination of the Management Agreement."

Repayment of Certain Distributions to the Unitholders

A Unitholder's personal liability for obligations of the Partnership generally will be limited, under Delaware law, to the amount of his original Capital Contribution and his rights to undistributed profits and assets of the Partnership. Under Delaware law, however, to the extent that a distribution to a Unitholder from the Partnership constitutes a return of all or a portion of such Unitholder's Capital Contribution (and such distribution is made without violation of the Partnership Agreement or the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act")), such Unitholder will be liable to the Partnership for a period of one year thereafter for the amount so returned, potentially with interest, but only to the extent necessary to discharge the Partnership's liability to creditors who extended credit to the Partnership during the period the Unitholder's Capital Contribution was held by the Partnership. In addition, if a Unitholder has received the return of all or any part of his Capital Contribution in violation of the Partnership Agreement or the Delaware Act, such Unitholder will be liable to the Partnership for a period of six years thereafter for the amount wrongfully returned, potentially with interest. It is a violation of the Delaware Act for a Unitholder to receive a distribution from the Partnership to the extent that, at the time of the distribution and after giving effect to the distribution, all liabilities of the Partnership, other than liabilities to Unitholders and the General Partner on account of their interest in the Partnership, exceed the fair value of Partnership assets.

Possible Loss of Limited Liability

Although a Unitholder's liability generally will be limited as described in the preceding paragraph, such limitation on liability may be lost if a Unitholder participates in the control of the Partnership's business. The Partnership Agreement provides certain rights to Unitholders, exercisable, in most cases, by a vote of less than all the Unitholders. See "Summary of the Partnership Agreements—Meetings and Voting." Although there is uncertainty under the present law of some jurisdictions as to whether the exercise of voting rights under certain circumstances might cause the Unitholders to be deemed to participate in the control of the business of the Partnership and therefore to be deemed general partners of the Partnership, with a resulting loss of limitations on their liability, the Partnership has received an opinion of Richards, Layton & Finger, the Partnerships' Delaware counsel with respect to Delaware law (the law under which the Partnership is formed), that the exercise by the Unitholders of the voting rights provided them in the Partnership Agreement will not, absent other participation in the management of the Partnership, cause the Unitholders to be deemed to be participating in the control of the business of the Partnership. See "Summary of the Partnership Agreements—Limited Liability."

Investigation by Liquor Licensing Authorities and Redemption of Units

Liquor licensing authorities in several states where the Operating Partnership will do business may investigate and make findings with respect to the suitability or qualification of Unitholders to hold Units in light of such states' policies in regulating the holding of liquor licenses. In some states, the Partnership must report to state liquor authorities the identity of any person who acquires, beneficially or of record, 5% or more of the Units. The Unitholder may then be required to establish his suitability to the satisfaction of such authorities. If, after the Partnership receives notice that a person has failed to provide information to establish his suitability or has been found unsuitable to be a Unitholder, that person fails to take such action necessary to address the concerns of the liquor authorities, the liquor authorities may take disciplinary action, including, without limitation, suspension or revocation of liquor licenses and imposition of fines. The Partnership Agreement provides that Units held by a Unitholder who fails to comply with liquor license regulations or who is found unsuitable will be subject to redemption through issuance of the Partnership's long-term promissory note if the Unitholder fails to divest himself of such Units. See "Summary of the Partnership Agreements—Right to Redeem Units."

Lack of Existing Market

Prior to this offering, there has not been any public market for the Units. Although the Units have been approved for listing on the American Stock Exchange, there can be no assurance that an active trading market will develop.

Financial Forecast

The Financial Forecast is based on certain assumptions, some of which inevitably will not materialize, and unanticipated events may occur which may affect the actual results achieved during the forecast period. Consequently, the actual results of operations during the forecast period will vary from the Financial Forecast, and such variations may be material.

RED LION

Red Lion is a full service hotel chain which operates in the western half of the United States. The Red Lion hotel system, established in 1959, currently includes 52 lodging facilities (two of which are under construction) with a total of over 11,800 rooms. These facilities are located in 38 cities throughout Arizona, California, Colorado, Idaho, Montana, Nebraska, Nevada, Oregon and Washington. The majority of the hotels operate under the name "Red Lion Inn." Some of the smaller limited service properties use the "Thunderbird Inn" name. The lodging facilities are designed to provide guests with a full range of high-quality hotel accommodations in convenient locations at competitive prices.

Red Lion's unaudited gross revenues in 1986 were approximately $251 million, and its unaudited gross assets and net worth at December 31, 1986 were approximately $775 million and $162 million, respectively. Red Lion's gross operating profit in 1985 was $89 million, or 36.3% of its gross revenues, compared to the industry average of 26.0% for comparable full service hotels in 1985 (the most recent year for which comparable statistics were available) as reported by Pannel Kerr Forster in *Trends in the Hotel Industry—1986 U.S.A. Edition* (the "PKF Report").

In April 1985, the Red Lion hotel chain (excluding the Nevada operations) was acquired by RL Acquisition Company, a California limited partnership. RL Acquisition Company is comprised of a Red Lion founder, a corporation (which holds the majority economic interest in Red Lion) wholly-owned by the Oregon Public Employees Retirement System and the State of Washington State Investment Board, and an affiliate of Kohlberg Kravis Roberts & Co. The six Red Lion hotels located in Nevada were not acquired, but (with the exception of casino operations) are operated by Red Lion pursuant to management contracts. Red Lion's five senior operating officers have a combined 75 years of Red Lion experience. Since the acquisition, Red Lion has expanded its management team to include six new senior executives with over 50 years experience in the hospitality industry at other hotel chains, including Marriott, Westin, Wyndham and Sheraton.

Red Lion competes primarily in the mid-priced sector of the hospitality market. However, several of its hotels in various metropolitan areas compete directly with higher-priced hotels. Red Lion has had particular success in establishing its presence in the medium-sized city segment of the hospitality market. Red Lion lodging facilities are typically located near airports or major traffic arteries and are convenient to commercial centers or tourist destinations.

Red Lion's marketing strategy is to target customers in four major market segments: convention and meeting clients; frequent individual business travelers, local food and beverage guests and pleasure and vacation travelers. Red Lion distinguishes itself from competing hotel chains by providing (i) extensive meeting and convention facilities; (ii) food and beverages services which attract local clientele as well as hotel guests; and (iii) oversized guest rooms.

By emphasizing food and beverage services, Red Lion attracts (i) business from the local community in each hotel location; (ii) meetings and conventions; and (iii) repeat business and referrals from hotel guests. Red Lion believes that its food and beverage operations are important in developing repeat business, stability in occupancy trends and profitability. Management believes that over 50% of its restaurant and lounge business comes from local communities and that this patronage increases Red Lion's name recognition and repeat business potential in the local community. All general managers of Red Lion's full service hotels are required to have food and beverage management backgrounds. The quality of Red Lion's food and beverage services enables Red Lion to compete with free-standing restaurants and lounges. Food and beverage revenues in 1985 constituted 44.1 % of Red Lion's gross revenues, compared to the industry average of 35.5% for 250-500 room hotels with restaurants, as reported in the PKF Report.

Red Lion's hotels offer a variety of meeting facilities, including ballrooms significantly larger than those provided in standard hotels with comparable numbers of rooms. Nearly half of all Red Lion full service lodging facilities have the capability to host groups of at least 750 people. Red Lion's meeting and convention facilities attract not only business conventions and conferences, but also local functions such as banquets and receptions. A network of over 120 sales representatives coordinated by regional sales offices in Sacramento, Portland and Seattle, as well as additional sales representatives in New York, Washington D.C. and Chicago and Red Lion's executive office in Vancouver, Washington, work to expand Red Lion's share of convention market business. In 1985, Red Lion hosted over 3,200 meetings and conventions.

A typical Red Lion guest room averages over 375 square feet, nearly 50-100 square feet larger than rooms in standard hotels (as reported in Laventhol & Horwath's *Hotel/Motel Development—1984 edition*). Management believes these oversized, comfortable rooms are especially attractive to individual business travelers.

Most Red Lion lodging facilities offer full service accommodations. In addition to restaurants, lounges, banquet and meeting space, these facilities offer oversized beds, premium television channel availability, complimentary airport shuttle service, free parking, swimming pools, room service and valet services. Other guest amenities may include health and fitness facilities, tennis courts, spas, gift shops, car rental desks, hair styling salons, valet parking, concierge services and in-room two-line telephones.

Each Red Lion hotel shares in the benefits of management services delivered by a network of experienced executive and regional managers. These services include training and support in marketing, sales, advertising, administration, maintenance, accounting, security and planning.

Red Lion's marketing division develops and implements advertising, public relations, market research, and training programs. Technical training and assistance is provided to each hotel for other areas such as front office operations, reservations, housekeeping, property maintenance, energy management, laundry, valet services, telephone systems and guest services. Other services provided by Red Lion include credit and collection, tax compliance, legal, computer and point of sale systems support and internal audit. Additionally, a team of corporate traveling chefs and food and beverage managers regularly visit all full service hotels and provide training and support in food preparation. Red Lion's food and beverage division establishes quality levels and monitors performance, assisting in menu design, pricing, accounting practices and cost controls.

Several auxiliary divisions supply Red Lion hotels with food, operating supplies, furnishings and equipment allowing Red Lion to ensure quality and to control costs. These divisions include: (i) a central purchasing division which allows Red Lion to volume purchase supplies at substantial cost savings; (ii) a centralized bakery which produces fresh bread and other baked goods daily; (iii) a meat and fish division which selects the highest quality beef for delivery to the lodging facilities; and (iv) an interior design department, an art graphics division and a construction division which work together to create and maintain a distinctive style at each hotel.

A toll-free reservation system is available to customers throughout the United States and Canada. In addition, Red Lion participates in major airline reservation systems, including American Airlines' "SABRE," United Airlines' "APOLLO" and Trans World Airlines' "PARS." These airline reservation systems have an aggregate of approximately 80,000 computer terminals on line at 23,000 locations, allowing travel agents to book Red Lion hotel reservations when guests are making other travel arrangements. More than 30% of the room nights sold in 1986 were booked through Red Lion's reservation system.

ACQUISITION OF THE HOTELS

The Purchase and Sale Agreement

Pursuant to the terms and conditions of a Purchase and Sale Agreement between the Operating Partnership and Red Lion (the "Purchase and Sale Agreement"), the Operating Partnership will purchase all of Red Lion's interest in the 10 Hotels (or the 11 Hotels if the Underwriters' over-allotment option is exercised). The Operating Partnership will pay Red Lion $204.67 million for the 10 Hotels (or $228.77 million for the 11 Hotels). The Operating Partnership will pay the purchase price of the Hotels solely from the proceeds of this offering and the proceeds of the Mortgage Loan. Red Lion has agreed to pay the Partnership an amount sufficient to enable the Partnership to pay all of its organization and offering expenses (including Underwriting Discounts and Commissions), as well as certain other costs (such as loan commitment fees). However, for tax and financial reporting purposes, the Operating Partnership will have a basis in the Hotels net of all such expenses and costs. In the event of a breach of the Purchase and Sale Agreement, the Operating Partnership's remedies will be limited to Red Lion's assets.

The closing of the Purchase and Sale Agreement and the Mortgage Loan will occur on, or as soon as practicable after, the closing date for the sale of the Units offered hereby. In the event that the closings do not occur simultaneously, the Partnerships will be entitled to all revenues from operation of the 10 Hotels after the closing of the sale of the Units offered hereby and Red Lion will be entitled to all interest, if any, on the proceeds of this offering. The Partnership will be entitled to revenues from the operation of the Additional Hotel upon the closing, if any, of the sale of such Hotel to the Operating Partnership on the exercise of the over-allotment option.

Pursuant to the Purchase and Sale Agreement, the Operating Partnership will acquire good and marketable fee or leasehold title to each Hotel, free and clear of all but liens or encumbrances that do not materially adversely affect the operation of the Hotel. Red Lion will not give any assurances that any Hotel could be used for any purpose other than operation as a hotel. The Operating Partnership will obtain title insurance in respect of each Hotel insuring in customary form that the Operating Partnership holds fee or leasehold title to such Hotel, free and clear of all liens and encumbrances except for those noted above. Red Lion will pay to the Partnership an amount sufficient for the Operating Partnership to pay its real estate closing costs. The Operating Partnership will not receive any warranty from Red Lion as to the condition of any improvements comprising the Hotels, but will receive assignments of builders' and contractors' warranties from Red Lion. In certain instances, the Partnership may acquire a Hotel subject to temporary operating authority for sales of alcoholic beverages pending expected receipt of permanent authority.

The Appraisal

The aggregate of the appraised values for the Hotels exceeds the purchase price of the Hotels. The appraised value of the Hotels reflects the opinion of the Appraiser as to the individual value of each of the Hotels. There can be no assurance that, if it were to sell any single Hotel, the Operating Partnership would realize a price equal to the appraised value of such Hotel or that if the Operating Partnership were to dispose of all the Hotels (or the Partnership were to dispose of its interest in the Operating Partnership), it

would realize a price equal to the aggregate appraised value of the Hotels or the purchase price paid to Red Lion. Moreover, while the methods and assumptions used by the Appraiser in preparing the appraisal were those that the Appraiser, in its professional judgment, concluded were appropriate, there can be no assurance that such assumptions are correct or that other or different methods or assumptions might not be appropriate. In any event, an appraisal is only an estimate of value and, as such, does not necessarily represent the true worth or realizable value of the Hotels. See "Appraisal."

The Mortgage Loan

The Hotels will be subject to a Mortgage Loan to be provided by United States National Bank of Oregon ("USNB") and Canadian Imperial Bank of Commerce ("CIBC"), as co-agents (collectively, the "Banks"), to the Operating Partnership. Pursuant to the terms of the loan agreement between the Operating Partnership and the Banks, the Mortgage Loan will be in the principal amount of $105.87 million, or $118.37 million if the Underwriters exercise their over-allotment option, and will bear interest at the rate of 9% per annum. Interest only will be payable monthly in arrears for five years and interest and principal will be payable monthly thereafter. The Mortgage Loan will be payable on a 25-year amortization schedule beginning in the sixth year and will have a term of eight years, resulting in a substantial portion of the principal becoming due in one payment at the end of the eight-year term. The Banks' obligation to make the Mortgage Loan will be subject to customary conditions, including satisfaction of certain real estate title matters and satisfaction of certain regulatory matters, such as the Operating Partnership's obtaining all necessary certificates of occupancy, permits and licenses. USNB and CIBC, as co-agents, will receive a single promissory note representing the Mortgage Loan payable to them jointly.

The Mortgage Loan will be secured by cross-collateralized first mortgage liens on each of the Hotels (the "Mortgages"). The Mortgage Loan will be nonrecourse; accordingly, except with respect to fraud, failure to insure and similar misconduct, it will provide that neither the Operating Partnership nor any partner therein (the General Partner and the Partnership) will have any personal liability under the Mortgage Loan and that the Banks will look for the repayment of the indebtedness secured by the Mortgages solely to the Hotels and any other security given for the payment of the Mortgage Loan and the other obligations under the Mortgage Loan. The Mortgage Loan must be prepaid in connection with a Sale or Refinancing of a Hotel in an amount equal to the greater of either a release price based on the percentage of the total Mortgage Loan represented by such Hotel or an amount sufficient to cause the cash flow to debt service ratio of the remaining Hotels to equal or exceed 1.6:1. A "mark to market" prepayment premium, if applicable, must be paid in an amount which, in general, equals the present value of the amount by which the interest rate which would be received under the Mortgage Loan on the principal amount being prepaid exceeds the amount of interest which would be received if such principal amount were invested in government securities for the remaining term of the Mortgage Loan. The Mortgage Loan will contain other customary events of default that would permit (subject to applicable grace periods) an acceleration of payment of the Mortgage Loan, including those arising from the breach of covenants in the Mortgage Loan documents.

USNB and CIBC have also agreed to provide an eight-year $10 million revolving credit line to be used as necessary to fund the working capital and other cash needs of the Operating Partnership. This credit line will bear interest at a floating rate and will also be secured by a first lien on the Hotels. The terms of this credit line will include a provision for cross-default if there is a default under the Mortgage Loan.

Red Lion's Continuing Role as Manager

Although the foregoing transactions represent a sale of the Hotels by Red Lion, the sale does not indicate a withdrawal from the hotel business in general or any reduction in Red Lion's commitment to providing high-quality service for the Hotels. Red Lion will continue to provide day-to-day management for the Hotels in a manner consistent with the current management of the Hotels and other hotels in the Red Lion system sharing the benefits of chain-wide services such as central reservations, advertising and central purchasing. As manager, Red Lion will retain a substantial interest in the success of the Hotels. See "Summary of the Management Agreement," and "Partnership Distributions and Allocations." Red Lion's principal objectives in selling the Hotels are to reduce its relative investment in real estate, to reduce its reliance on floating rate debt, to generate capital to expand and promote the "Red Lion" name and to focus its business strategy on managing and operating, rather than owning, hotels.

Combined Statements of Operations

(a) Adjustment for chain services from Red Lion, in accordance with the management agreement.

(b) Adjustment to historical management fees to recognize terms of the management agreement.

(c) Adjustment to decrease depreciation expense caused by the change in property and equipment basis. Buildings are depreciated over 35 years and furnishings and equipment over eight years for the new basis.

(d) Adjustment to recognize interest expense inclusive of loan fee amortization for the new mortgage loans and elimination of the Red Lion historical net interest expense which will not be incurred by the Partnerships.

(e) Adjustment to record administrative costs of the Partnerships. The Partnerships will pay the General Partner $325,000 in the first year for expenses incurred on its behalf in connection with the administration and supervision of the Partnerships and their assets.

(f) Adjustment to remove amortization of goodwill included in the historical statement of income, net of amortization of the organization costs of the Partnerships.

(g) Adjustment to remove Colorado Springs Red Lion Inn from the historic statements of operations.

(h) Adjustment to property taxes to reflect estimated change resulting from acquisition of the Hotels.

(i) Adjustment to reflect decrease in rent expense as a result of purchase of land at Red Lion Inn Lloyd Center which was previously leased.

(j) to record General Partner's 1.99% interest in the results of operations.

(k) No federal or state income taxes are reflected as such amounts will be includable in the individual income tax returns of the Partners.

4. Revolving Credit Facility

The General Partner will provide, through the first 36 months of operation of the Partnership, a $4 million non-interest bearing revolving credit facility which will be used by the Partnership to the extent Cash Flow Available for Distribution is insufficient to make the Priority Distributions. See "Investment Objectives and Policies—General Partner Distribution Support."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS OF THE HOTELS

General

In April 1985 Red Lion was formed to acquire the principal assets of the Red Lion hotel chain, including all of the Hotels. Pursuant to the purchase method of accounting, significant adjustments were made to the assets and liabilities of the Hotels. Certain expenses (property taxes, interest, depreciation, amortization, and management fees) have changed significantly as a result of the acquisition and adjustments. For purposes of this discussion, the comparison of 1985 to other periods is based on combining the periods January 1, 1985 to April 9, 1985 (the period prior to the acquisition) and April 10, 1985 to December 31, 1985, both as shown in the historical financial statements appearing elsewhere in this Prospectus, to reflect on a pro forma basis a full 12-month period. The following discussion does not address the expenses referred to above since they are not comparable period to period and will be subject to further adjustments as a result of the sale of the Hotels to the Partnership.

Fiscal 1986 Compared to Fiscal 1985

The 1985 acquisition of Red Lion resulted in certain changes to the business and management focus of the company. The management team was strengthened during 1986 to combine experienced Red Lion executives with senior management drawn from other companies in the hospitality industry. This managerial transition, in combination with increased competition in certain markets and major renovations which made guest rooms unavailable, resulted in a modest decline in revenues during 1986.

Revenues decreased $799,000 (1.1%) for the 10 Hotels and $1,667,000 (2.1%) for the 11 Hotels in 1986 as compared to 1985. This was due primarily to a decrease in room revenues of $439,000 (1.2%) and $919,000 (2.2%) for the 10 Hotels and the 11 Hotels, respectively. Average room rate during the period was stable, while occupancy decreased due to the major renovations at the Sacramento Red Lion and the Red Lion Bellevue Center which made guest rooms unavailable, as well as an increase in the supply of competing rooms in the Boise and Sacramento markets. Both food and beverage revenues decreased ($186,000 and $326,000, respectively, for the 10 Hotels and $397,000 and $379,000, respectively, for the 11 Hotels) reflecting the lower occupancies and, in the case of beverage revenues, a general industry decline in liquor sales. Revenues decreased slightly more for the 11 Hotels due to lower occupancy levels in the Sacramento market. Rooms, food, beverage and other revenues as a percentage of total revenues remained fairly constant between years.

Gross operating profit (profit before property taxes, insurance, rent, interest, depreciation, amortization and management fees) decreased $772,000 (3.0%) for the 10 Hotels and $1,304,000 (4.4%) for the 11 Hotels and, as a percentage of revenues, decreased 0.7% for the 10 Hotels (0.9% for the 11 Hotels). These decreases were primarily due to lower revenues and increases in payroll expenses, as well as increases in advertising expenses, reflecting management's decision to increase promotional efforts in response to new competition.

In 1986 Red Lion also experienced significant increases in insurance costs (over a $900,000 increase for the 10 Hotels and over a $1,000,000 increase for the 11 Hotels) due to premium increases reflecting market conditions in the insurance industry. Insurance costs (excluding Colorado Springs Red Lion Inn), as a component of the Financial Forecast set forth in Exhibit A, are estimated to decline for the period covered by the Financial Forecast (an approximately $529,000 decrease for the 10 Hotels and an approximately $607,000 decrease for the 11 Hotels) due principally to anticipated premium decreases (contracted for through November 1, 1987).

Fiscal 1985 Compared to Fiscal 1984

Revenue increased $2,265,000 (3.3%) for the 10 Hotels and $2,824,000 (3.7%) for the 11 Hotels. These increases were attributable to increases in room revenues of $1,732,000 (5.1%) for the 10 Hotels and $2,199,000 (5.6%) for the 11 Hotels due primarily to increases in average room rates at all of the Hotels which averaged 5.7% and 5.1% for the 10 Hotels and the 11 Hotels, respectively. The strong growth in room revenues was offset slightly by slower growth in food revenues and a slight decline in beverage revenues for both the 10 and 11 Hotels, reflecting the general industry decline in liquor sales referred to above.

Gross operating profit increased $1,155,000 (4.7%) for the 10 Hotels and $1,284,000 (4.5%) for the 11 Hotels over 1984 and, as a percentage of revenues, increased 0.5% and 0.3% for the 10 Hotels and the 11 Hotels, respectively. These increases were due principally to increases in room revenues and control of expenses, principally payroll and cost of sales.

In addition, insurance expense increased for the Hotels in 1985 compared to 1984. Such increase was the result of premium increases reflecting market conditions in the insurance industry, but was not as great as the increase experienced in 1986.

Liquidity and Capital Resources

The General Partner believes that funds generated from the operations of the Hotels should be sufficient to satisfy operating cash requirements. In addition, the General Partner has arranged for a $10 million revolving loan facility that will allow it to borrow funds, if needed, to meet working capital and other cash requirements.

A reserve will be maintained pursuant to the Management Agreement for regular refurbishings and renovations of the Hotels. In addition, Red Lion has committed to fund a capital renovation program at most of the Hotels during 1987 at an estimated cost of approximately $4 million for certain of the 10 Hotels (approximately $4.5 million for the 11 Hotels). See "Summary of the Management Agreement—Refurbishing and Renovations."

MANAGEMENT

The General Partner

The General Partner, a wholly-owned subsidiary of Red Lion, was incorporated under the laws of Delaware in December 1986. The General Partner was organized by Red Lion for the specific purpose of acting as General Partner of the Partnerships.

The General Partner will be capitalized by Red Lion's contribution of cash equal to 5% of the limited partners' Capital Contributions. In addition, Red Lion will contribute to the General Partner a demand note in a principal amount equal to an additional 5% of the limited partners' Capital Contributions. The General Partner has agreed to use all reasonable efforts to insure that its net assets will remain at sufficient levels to meet certain existing tax requirements.

The General Partner may be removed only by a vote of the Unitholders owning 75% or more of the Units unless such removal is for cause, in which case the consent of Unitholders owning 60% or more of the Units is required. See "Summary of the Partnership Agreements—Withdrawal or Removal of the General Partner."

Management of the Partnerships

The General Partner is responsible for the management and administration of both the Partnership and the Operating Partnership.

Partnership management services include: preparing or reviewing projections of cash flow, taxable income or loss and working capital requirements; conducting periodic physical inspections, market surveys and continual reviews to determine if and when Partnership assets should be sold and acceptable terms of sale; arranging any debt financing for capital improvements or in connection with the purchase of assets; supervising any litigation involving the Partnerships; preparing and reviewing Partnership reports; communicating with investors; supervising and reviewing Partnership bookkeeping, accounting and audits; supervising the preparation of and reviewing Partnership state and federal tax returns; and supervising professionals employed by the Partnerships in connection with any of the foregoing, including attorneys, accountants and appraisers.

For the first 36 months of Partnership operations, the General Partner will receive a fee of $325,000 per year for carrying out such normal, ongoing services. Thereafter, the General Partner will be reimbursed by the Partnership for the expenditures incurred in carrying out these services, including

charges for professional consulting and technical services; provided that if the General Partner is no longer an affiliate of Red Lion, such reimbursement for normal, ongoing services will be limited to ½% of gross revenues of the Hotels. The General Partner estimates that the actual level of such expenses during the Partnership's first year of operations will not exceed the $325,000 fee. The General Partner will also be entitled to reimbursement for extraordinary expenses. See "Summary of the Management Agreement—Compensation."

Partnership management services may be performed by employees of Red Lion or its Affiliates at the request of the General Partner. The officers and directors of the General Partner, most of whom are also officers of Red Lion and its subsidiaries, will devote such time and attention to the affairs of each of the Partnerships as may be necessary and appropriate.

The Operating Partnership will act through the General Partner in executing the Management Agreement. Its consent will therefore be required for any changes to the Management Agreement.

Operation of the Hotels by Red Lion

The Hotels have been managed by Red Lion as part of its network of lodging facilities. Red Lion will continue as manager and will be responsible for the day-to-day operation of each Hotel. Red Lion will receive a base management fee from the Operating Partnership equal to 3% of annual gross revenues of the Hotels, as well as an incentive management fee based on Adjusted Gross Operating Profit. Red Lion will also be entitled to payment for certain expenses incurred in managing the Hotels and for providing the Hotels with its nationwide chain services, such as credit, training systems, advertising and reservation services. The cost of such services will be allocated among all hotels in the Red Lion chain on a non-discriminatory chain-wide basis. See "Summary of the Management Agreement—Compensation."

Red Lion, as manager, will perform overall management and all operating functions for the Hotels pursuant to the Management Agreement. Personnel will be employees of either Red Lion or the General Partner. Neither the Partnership nor the Operating Partnership will have employees. See "Summary of the Management Agreement."

Although most operating responsibilities for the Hotels will be delegated to Red Lion as manager, the General Partner will oversee Red Lion's performance and make decisions as to Sale and Refinancings of Hotels, commencement of litigation and other matters that would have a material effect on the Partnerships' investment in the Hotels or would require the approval of an owner of the Hotels.

Directors and Officers of the General Partner

Certain information is set forth below concerning the directors and officers of the General Partner, each of whom has been elected or appointed to serve until his successor is duly elected and qualified.

Name	Age	Present Position with the General Partner
Jacob H. Best, Jr.	49	President and Chief Executive Officer
H. Raymond Bingham	41	Executive Vice President and Chief Financial Officer
Leslie R. King	44	Executive Vice President—Operations
James H. Rech	39	Senior Vice President and Treasurer
Bud L. Taylor	44	Senior Vice President and Secretary
Herman Haastrup	43	Vice President—Food and Beverage
Bradley E. Hutton	36	Vice President—Operations
Jack G. Reiss	36	Vice President—Operations
George H. Schweitzer	31	Vice President—Operations
Roger S. Meier	61	Director
George R. Roberts	43	Director
Michael W. Michelson	35	Director
Edward A. Gilhuly	27	Director

Mr. Best joined Red Lion in January 1987 as its President and Chief Executive Officer. Prior to joining Red Lion, Mr. Best had been President and Chief Executive Officer of Wyndham Hotels since November 1984. He was President of Ramada Inns from April 1984 to October 1984. Prior to that time, he had been with Marriott Hotels where the last position he held was Executive Vice President.

Mr. Bingham has been Executive Vice President and Chief Financial Officer of Red Lion since August 1985. Prior to joining Red Lion, Mr. Bingham was Managing Director of AGRICO Overseas Investment Company, one of the Williams Companies.

Mr. King has been with Red Lion for more than five years, as Executive Vice President—Operations since August 1986, and as Vice President and Operations Administrator prior to August 1986.

Mr. Rech has been Senior Vice President and Treasurer of Red Lion since August 1986. He was an Executive Vice President of Golden West Capital Group from January 1986 to August 1986 and Executive Vice President at Mercury Savings and Loan from May 1984 to January 1986. Prior to May 1984 Mr. Rech was a Project Finance Manager at the Marriott Corporation.

Mr. Taylor has been with Red Lion since 1983 as its Senior Vice President—Administration since April 1985 and as Vice President—Corporate Development from October 1983 to April 1985. Prior to that time, he was Vice President and Chief Financial Officer of Northern Specialty Sales, Inc. of Portland, Oregon.

Mr. Haastrup is Vice President—Food and Beverage for Red Lion, a position he has held since March 1986. Prior to that time, he had been Corporate Director of Food and Beverage for Red Lion for more than five years.

Mr. Hutton has been Vice President—Operations for Red Lion since November 1986. Prior to that time, he was Vice President for Raffles Hotels and Inns from August 1985 to October 1986. He was Regional Vice President and General Manager of Red Lion Inn Lloyd Center from July 1982 to July 1985 and Regional Vice President and General Manager of Red Lion Inn/Columbia River prior to July 1982.

Mr. Reiss has been Vice President—Operations for Red Lion since October 1986. He was Vice President—Director of Operations for Vista Host Inc. from January 1986 to October 1986. Mr. Reiss was Regional Vice President and General Manager of Red Lion Inn/San Jose from June 1984 to January 1986 and Regional Manager and General Manager of Red Lion Inn/Riverside prior to June 1984.

Mr. Schweitzer has been Vice President—Operations for Red Lion since July 1985. Prior to that time, he was Vice President of EBCO, Incorporated (a hotel/real estate development company) from September 1984 through 1985. He was with Red Lion from 1976 to September 1984, holding positions which included General Manager of the Red Lion Inn/San Jose (1982-1984) and Red Lion's Sacramento Inn (1981-1982).

Mr. Meier has been President and Chief Executive Officer of AMCO, Inc., a privately-owned investment enterprise, for more than the last five years. He has also been a general partner of Meier Family Partnership, a privately-owned investment enterprise, since September 1982. Until March 1986, he was also Chairman of the Oregon Investment Council and a Trustee of the Oregon Public Employees' Retirement System. Mr. Meier is a Director of Fred Meyer, Inc. and Key Bank of Oregon, a wholly-owned subsidiary of KeyCorp.

Messrs. Roberts and Michelson are general partners in KKR, a private investment firm, and each has been associated with KKR for more than five years. Mr. Roberts is a director of Child World, Inc., CNC Holding Corporation, Cole National Corporation, Union Texas Petroleum Holdings, Inc., PACE Industries, Inc., Pace Group Holdings, Inc., Scipsco, Inc., Storer Cable, Inc., SCI Holdings, Inc., Safeway Stores, Incorporated, Beatrice Companies, Inc., BCI Holdings Corporation and Motel 6 G.P., Inc. Mr. Michelson is a director of Union Texas Petroleum Holdings, Inc. and Fred Meyer Inc.

Mr. Gilhuly has been associated with KKR since September 1986. From September 1984 to June 1986 he attended the Graduate School of Business at Stanford University. Prior to that time he was a financial analyst with Merrill Lynch Capital Markets.

Mr. Meier is currently the sole independent director. The General Partners intend to elect one additional independent director within one year of the closing of this offering. Mr. Meier and such additional director, when elected, will serve on the audit committee of the Board of Directors.

Directors receive an annual fee of $15,000. Directors are also reimbursed for out-of-pocket expenses relating to their attendance at meetings. The Partnership will reimburse the General Partner for such expenses.

SUMMARY OF THE MANAGEMENT AGREEMENT

The Operating Partnership will enter into a Management Agreement with Red Lion for Red Lion's services as manager of the Hotels. Under the Management Agreement, Red Lion will manage the Hotels in a manner consistent with the level of services prevailing in other hotels it manages. In furtherance of these obligations, Red Lion will implement its standard administrative, accounting, budgeting, computer systems, marketing, personnel and operational practices and arrange for maintenance, utilities, security, materials and other services as are required for the orderly operation of the Hotels, all as described below. The Operating Partnership's remedies for any breach of the Management Agreement are limited to Red Lion's assets.

The following is a summary of certain terms of the Management Agreement. A copy of the Management Agreement has been included as an exhibit to the Registration Statement of which this Prospectus is a part and is available for inspection. The following discussion is qualified in its entirety by reference to the Management Agreement.

Red Lion Management Services

Red Lion will furnish certain services to the Operating Partnership in connection with its management responsibilities, including the following:

Executive Supervision and Management Services. Red Lion will train and maintain regional office staff and provide certain services at the administrative level. In addition, Red Lion will hire a general manager and the department heads for each Hotel and establish employment policies and practices for the Hotels; review the operation and maintenance of the Hotels; prepare budgets; and provide other administrative and accounting support services.

Chain Services. Red Lion will furnish each Hotel with certain services which it furnishes to its other hotels on a central or regional basis. These services include conducting advertising, promotions, sales and public relations programs designed to create awareness of and preference for the Red Lion name and providing access to Red Lion's confidential computer software programs. The Hotels will remain integrated in Red Lion's reservation system which makes available to guests toll-free telephone reservations from any point in the United States and Canada.

Operational Services. Red Lion will have the responsibility and exclusive authority for establishing all room rates, restaurant and lounge rates, meeting and convention rates and all other charges for use of the Hotels' facilities and all policies relating to employees, including compensation levels. Red Lion will endeavor to cause the Operating Partnership to comply, in all material respects, with the terms of the Mortgage Loan and any other material contracts of the Operating Partnership.

Use of Affiliates

Red Lion intends to employ the services of Affiliates in providing certain services to be obtained by the manager under the Management Agreement in accordance with past practice. The terms of such employment will be no less favorable than those which would be available from unaffiliated third parties for comparable quality.

Business Plan

Red Lion will prepare an annual operating plan and budget for each Hotel, including but not limited to estimated expenditures for all capital improvements and renovations.

Maintenance, Repairs and Capital Improvements

Red Lion, at the Operating Partnership's expense, will cause the Hotels to be maintained in good operating condition and repair, will replace all items of furniture, fixtures, equipment and operating supplies and inventory and will make major repairs, alterations or replacements as it from time to time deems advisable. Major renovations are expected to be undertaken at each of the Hotels approximately every seven years. The Management Agreement requires a reserve fund, initially equal to 1% of gross revenues of the Hotels for the first 12 months of Partnership operations, 2½% of gross revenues for the next 12 months and 3% of gross revenues in each 12-month period thereafter, to be used for renovations, refurbishings and other capital expenditures. The General Partner believes this fund will be adequate for such purpose. See "The Hotels—Refurbishing and Renovations."

Insurance

Red Lion will obtain for each Hotel comprehensive insurance coverage customarily obtained for other Red Lion hotels. Red Lion may retain such risks or portions of risks as it does with respect to other hotels it manages under the Red Lion name, provided that in such event there will be, in Red Lion's judgment, no material adverse risk to the Partnerships. All costs of insurance, including risks retained by Red Lion, will be allocated pro rata on a nondiscriminatory chain-wide basis and will be direct operating expenses of the Hotels payable by the Operating Partnership. In any event, the General Partner may elect to obtain additional insurance on behalf of the Partnerships.

Financial Responsibility

The Operating Partnership will be responsible for providing funds to meet the cash needs of the Hotels if at any time the funds available from operations are insufficient to meet the financial requirements of the Hotels.

Red Lion Service Marks

The Hotels will be permitted, under the Management Agreement, to use the service mark "Red Lion" and the Red Lion logo and symbol. Red Lion intends to maintain its legal ownership of these marks, but is obligated to allow their use in connection with the activities of the Operating Partnership for the duration of the Management Agreement.

Compensation

Red Lion will be paid an annual Base Management Fee equal to 3% of annual Gross Revenue of the Hotels plus an annual Incentive Management Fee. The Base Management Fee is payable monthly by the Operating Partnership out of revenues from the operations of the Hotels prior to the distribution of cash, including distribution of cash to the Unitholders. The Incentive Management Fee will equal the sum of (i) 15% of Adjusted Gross Operating Profit up to $36 million for the 10 Hotels ($39.6 million for the 11 Hotels) (the "Operating Profit Target") and (ii) 25% of Adjusted Gross Operating Profit in excess of the Operating Profit Target. The Operating Profit Target will be reduced in the event of a Sale of a Hotel in proportion to the Gross Operating Profit of such Hotel for the previous three years (or such lesser time as the Partnership has been in operation) as compared to total Gross Operating Profit of all Hotels owned immediately before such Sale for such period. Current payment of the Incentive Management Fee in any given year will be subordinate to receipt by the Operating Partnership of an amount from operations sufficient to make the Priority Distributions. See "Summary of the Offering—Anticipated First-Year Distributions and Financial Forecasts."

Any Incentive Management Fees which are earned but not paid will be deferred without interest up to a maximum amount of $6 million at any one time and will be repaid out of either (i) 25% of cash flow from operations in any given year in excess of amounts sufficient to pay debt service on the original Mortgage Loan, the $10 million revolving credit line, the Priority Distribution and the current Incentive Management Fee, or (ii) Sale or Refinancing Proceeds prior to any distributions to Unitholders. As a result, Red Lion will not be entitled to earn or accrue any Incentive Management Fees greater than those currently payable, to the extent such accrual would cause the amount of deferred and unpaid Incentive

Management Fees to exceed $6 million at any one time. However, to the extent that the amount of deferred and unpaid Incentive Management Fees is reduced below $6 million, additional deferred amounts may accrue and be paid.

Although the deferral of Incentive Management Fees is intended to facilitate making the Priority Distributions to Unitholders, there are limited circumstances in which Incentive Management Fees could be paid even if such distributions are not made. Current payment of the Management Fee is subordinate to an amount which equals the sum of debt service payments on the Mortgage Loan and the Priority Distributions. Therefore, if debt service increases as a result of a refinancing, the Incentive Management Fee will not be deferred to the extent of such increase. In addition, the General Partner may set aside reserves out of funds which would otherwise be available to make distributions. In such events, however, the General Partner may borrow funds to make Priority Distributions.

The Base Management Fee and Incentive Management Fee are payable for the services of Red Lion in providing the services described under "Red Lion Management Services" above. Salaries, wages and benefit costs incurred with respect to Red Lion's employees assigned to the Hotels on a full-time basis and expenses incurred with regard to the services of Red Lion's technical and operational experts making periodic inspection and consultation visits to the Hotels as part of the normal course of business will be paid by the Operating Partnership. In addition, the Operating Partnership will pay Red Lion for its pro rata portion of charges for nationwide chain services, including computer, advertising, public relations, promotional and sales and reservation services to all the Red Lion hotels. These charges are generally allocated on a per room basis for each hotel in the Red Lion system (including the Hotels) although charges for certain services are allocated per use of the service or on other bases. Red Lion reserves the right to allocate charges on some other, nondiscriminatory basis. These charges are subject to increase by Red Lion if Red Lion determines such an increase to be necessary for it to provide the level of service appropriate for the hotels in the Red Lion system, but the charges to the Operating Partnership under the Management Agreement will always be allocated on the same basis for the Hotels as for the other hotels in the Red Lion system. The Operating Partnership will also purchase other goods and services from Red Lion and its affiliates, including bakery goods, meats and fish. Such goods and services will be provided to the Partnership at the same prices and on the same terms as such goods and services are provided to other hotels in the Red Lion chain and generally at prices as favorable as those available from unaffiliated third parties.

Term

The Hotels will be managed by Red Lion for the Operating Partnership for an initial term of 25 years, unless earlier terminated as provided below, renewable thereafter by Red Lion for ten terms of five years each.

Transfer of Ownership

The Operating Partnership may assign, transfer, or convey its right, title and interest in the Hotels at any time. Red Lion must be offered the right to purchase any Hotel that the Partnership determines to transfer and has a right of first refusal to purchase any Hotel for which a bona fide third-party offer which the Operating Partnership is willing to accept has been received. See "Certain Considerations—General Considerations—Sale Value of the Hotels." A Hotel which is sold will remain subject to a management agreement between Red Lion and the new owner. Assignment of the Management Agreement by Red Lion (except assignment to an Affiliate or to an entity which acquires substantially all of the business of Red Lion) entitles the Partnership to terminate the Management Agreement.

Termination of the Management Agreement

Red Lion may terminate the Management Agreement with respect to one or more Hotels (1) in the event of a breach of the Management Agreement by the Operating Partnership and failure to cure within 30 days; (2) in certain events of casualty or condemnation; (3) in certain events of bankruptcy or insolvency of the Partnerships; or (4) in the event that the General Partner is removed or discharged. The Operating Partnership may terminate the Management Agreement (1) in the event of a breach of the Management Agreement by Red Lion and failure to cure within 30 days; (2) for cause (defined as a non-appealable judicial determination of actual fraud, gross negligence or willful and wanton misconduct); (3) in certain events of casualty or condemnation; or (4) in certain events of bankruptcy or insolvency of Red Lion.

The Operating Partnership has the responsibility promptly to commence to repair damage from an insured casualty out of the proceeds of insurance therefor, provided that if the estimated cost of restoration exceeds 50% of the replacement cost of the Hotel then the Operating Partnership may terminate the Management Agreement as it applies to such Hotel after payment to Red Lion of a termination fee equal to five times the total Base Management Fee and Incentive Management Fee without regard to accrual limitations with respect to such Hotel for the last calendar year during which the Hotel was fully operational; provided, however, that the Operating Partnership's maximum liability with respect to such termination fee is limited to the value of the Hotel with respect to which the termination has occurred, together with any insurance proceeds received or receivable by the Operating Partnership with respect to such Hotel. Therefore if the Operating Partnership does not have sufficient cash to pay such fee it may transfer its ownership rights in such Hotel to Red Lion, together with any insurance proceeds received or receivable by the Operating Partnership with respect to such Hotel in full satisfaction of such fee. The Operating Partnership may terminate the Management Agreement with respect to any Hotel damaged by any cause for which insurance coverage was not required if the estimated cost of restoration exceeds 30% of the replacement cost of such Hotel. In the event of a taking as a result of condemnation or eminent domain, or a conveyance by the Operating Partnership in lieu thereof, of all or substantially all of a Hotel, the Management Agreement will terminate with respect to such Hotel.

The use of the service mark, logo and symbol of Red Lion will terminate with respect to a Hotel upon termination of the Management Agreement with respect to such Hotel, except that if such termination is due to a default by Red Lion, such use will be extended for up to 120 days after termination of the Management Agreement.

Subordination

The Management Agreement will be subordinate to the Mortgage Loan and to any refinancing thereof which is either in a principal amount not greater than the then amortized principal balance of the Mortgage Loan or consented to by Red Lion, which consent may not be unreasonably withheld if the replacement loan is on customary terms, has a term of at least five years, has a loan-to-value ratio no greater than the Mortgage Loan and has scheduled debt service payments no greater than 50% of the prior year's cash flow available for debt service less the prior year's Incentive Management Fee (including deferred Incentive Management Fees which were accrued). Cash flow available for debt service is Adjusted Gross Operating Profit less property taxes, insurance, leases and rents.

Indemnification and Liability

The Operating Partnership will indemnify Red Lion and its officers, directors and employees for any claims by any person by reason of any suit, claim, demand, judgment or cause of action arising out of the performance by Red Lion of its obligations under the Management Agreement unless Red Lion was grossly negligent or engaged in willful misconduct or acted in breach of the Management Agreement. Red Lion will indemnify the Operating Partnership against any claims arising out of Red Lion's negligence, willful misconduct or breach of the Management Agreement. Such indemnification in each case is without recourse to the indemnifying party. In the event of a breach of the Management Agreement, the Operating Partnership's remedies will be limited to the assets of Red Lion.

CONFLICTS OF INTEREST

The Partnerships are subject to various conflicts of interest arising out of their relationship with the General Partner and its Affiliates. These conflicts include, but are not limited to, the following:

Selection and Acquisition of the Hotels

The terms of the sales of the Hotels to the Operating Partnership and the selection of such Hotels were determined by the General Partner and Red Lion and, as such, were not negotiated on an arm's-length basis. In selecting the Hotels, Red Lion and the General Partner attempted to select hotels that were representative of the Red Lion hotel portfolio, taking into account several criteria, including the age of the Hotels and gross revenues per room. Other factors taken into account were the geographical diversity of the Hotels, Red Lion's ability to transfer legal title to the Hotels to the Operating Partnership and tax consequences to Red Lion.

The Purchase Price of the Hotels was determined by Red Lion and the General Partner by considering various factors, including the historical results of operations of the Hotels, the Hotels' prospects for operations in the future, the prospects for future resales of the Hotels, the replacement costs of the Hotels, the land value of the sites and the appraised values of the Hotels. An appraisal of the Hotels was obtained from Hospitality Valuation Services, Inc., an independent third-party Appraiser. It should be recognized, however, that appraised values are opinions subject to customary, stated limiting conditions and, as such, may not represent either the true worth or the realizable value of the Hotels. See "Appraisal."

Management of the Hotels and the Partnerships

Each of the Hotels will be managed by Red Lion under the terms and conditions of the Management Agreement pursuant to which Red Lion will receive substantial fees. Neither the amount of the fees nor the other terms of the Management Agreement were negotiated on an arm's-length basis. Moreover, within the framework of the Management Agreement, certain elements of compensation and reimbursement will require the exercise of discretion by Red Lion. See "Summary of the Management Agreement." The General Partner also may sell goods or services to the Partnerships or, acting on behalf of the Partnerships, arrange for the sale of goods or services to the Partnerships by its Affiliates, including Red Lion. The terms on which such goods or services are provided to the Partnerships must be fair and reasonable, must be on the same basis as for other hotels in the Red Lion system to which such goods and services are provided, and must be, in the aggregate, no less favorable than those which could be obtained from unaffiliated third parties for comparable quality. See Section 6.8 of the Partnership Agreement.

Purchase of Hotels by Red Lion

Red Lion must be offered the right to purchase any Hotel that the Partnership determines to transfer. In addition, in the event that the Partnership receives and is willing to accept a bona fide third party offer to purchase any Hotel or an interest in the Operating Partnership, Red Lion will have the right to purchase such Hotel or interest upon the same terms and conditions contained in such offer. The Partnership Agreement provides that any sale of a Hotel or of an interest in the Operating Partnership to an Affiliate of the General Partner must be approved by a majority of the outside directors of the General Partner.

Competition with Other Red Lion Inns

In addition to the Hotels, Red Lion owns and/or manages over 40 other lodging facilities (including six facilities known as Thunderbird Motor Inns) located in nine states. Although some of these facilities may compete with the Hotels, the General Partner believes that there also are benefits to the Partnerships from having other Red Lion Inns located in the same market area as the Hotels, such as marketing and advertising efficiency, enhanced name recognition and the ability to direct overflow traffic from one hotel to another.

Devotion of Time and Capital by the General Partner and Affiliates

The Partnership will not have independent management and will rely entirely on the General Partner in this regard. The General Partner, in turn, will rely on Red Lion for management of the Hotels pursuant to the Management Agreement. However, none of the General Partner, its Affiliates or any of their employees will be required to manage the Partnership or manage and operate the Hotels as their sole and exclusive function. Red Lion and its Affiliates have other business interests and engage in other activities in addition to those relating to the Partnerships and the Hotels. The General Partner and Red Lion will devote only so much of their time and that of their officers and employees to the business of the Partnerships and operation of the Hotels as in their judgment is reasonably required. The General Partner and Red Lion will have conflicts of interest in allocating management time, services and functions, as well as capital, among the Partnerships and any future partnerships that they may sponsor, other hotels they now or may hereafter manage, or other business ventures in which they are involved. Red Lion believes that it has sufficient staff personnel to be fully capable of discharging its responsibilities to the Partnerships and to any other business entities for which it may be responsible, and it will employ additional persons for such purposes if required.

Determination of Reserves

In determining the appropriate level of working capital reserves, the interest of the General Partner in assuring adequate funds for operations of the Hotels may, in some cases, be in conflict with the interests of the Unitholders in maximizing cash distributions. Such working capital and other reserves will be established as the General Partner determines are reasonably necessary based on the operating history of or projections for the Hotels.

Professional Consultants

The Unitholders have not been represented by independent counsel in connection with the preparation of the Partnership Agreements or the Management Agreement or in establishing the terms of this offering. The lawyers, accountants and others who have performed services for the Partnerships in connection with this offering have been employed by Red Lion and the General Partner, and may continue to represent Red Lion, the General Partner and their Affiliates. Lawyers, accountants, appraisers and others who will perform services for the Partnerships in the future will be selected by the General Partner and may also perform services for Red Lion and the General Partner and their Affiliates. The General Partner will cause the Partnerships to hire independent advisors when necessary, in accordance with its fiduciary duties.

Resolution of Conflicts of Interest

The General Partner is accountable to the limited partners of the Partnerships as a fiduciary and, consequently, must exercise good faith and integrity in handling the assets and affairs of such Partnerships. The General Partner believes that under Delaware law, such a fiduciary duty of a general partner to its limited partners is more like the duty of a director to stockholders of a corporation than the duty of a trustee to beneficiaries of a trust.

The Partnership Agreements provide that whenever a conflict of interest arises between the General Partner or its Affiliates, on the one hand, and the Partnership, the Operating Partnership or any limited partner, on the other hand, the General Partner shall, in resolving such conflict, consider the relative interests of the parties involved in such conflict or affected by such action, any customary or accepted industry practices and any applicable generally accepted accounting practices or principles. The same considerations apply whenever the Partnership Agreements provide that the General Partner will act in a manner that is fair and reasonable to the Partnership, the Operating Partnership or the limited partners. Thus, unlike the strict duty of a fiduciary who must act solely in the best interests of his beneficiary, the Partnership Agreements permit the General Partner to consider the interests of all parties to a conflict of interest, including the General Partner, although it is not clear under Delaware law that such provisions would be enforceable. Notwithstanding the foregoing, the Operating Partnership may not sell any Hotel to Red Lion or any of its Affiliates unless such sale is in the best interests of the Partnership.

The Partnership Agreements also provide that in certain circumstances the General Partner will act in its sole discretion, in good faith or pursuant to other appropriate standards.

INVESTMENT OBJECTIVES AND POLICIES

The investment objectives of the Partnership are to provide investors with the opportunity to receive increasing distributions of cash flow from the operations of the Hotels and to participate in any long-term appreciation in the value of the Hotels. The General Partner, when it deems appropriate, may seek to realize capital appreciation through the Sale or Refinancing of some or all of the Hotels.

Distributions from Operations

The Partnership intends to make quarterly distributions to the Unitholders in each year in an aggregate amount equal to all cash flow generated from operations in excess of amounts required for operating expenses, debt service on any indebtedness, reserves and capital expenditures. Distributions will be made quarterly within 45 days after the end of each calendar quarter commencing with the Partnership's first full fiscal quarter of operations. It is anticipated that quarterly distributions from cash flow in the first year of the Partnerships' operations will equal $0.50 per Unit ($2.00 per Unit on an annualized basis), subject to adjustment to reflect the actual number of days between the closing of this offering and the end of the Partnership's first full quarter of operations. Subject to the General Partner's right in its discretion to fund reserves for working capital and other purposes, the Partnership may not reinvest Cash Flow Available for Distribution except on a temporary basis pending distribution. See "Short-Term Investments" below.

To provide level distributions during the quarters for each year, the Partnerships might not distribute in each quarter all cash available for distribution in that quarter, and the General Partner may use various cash management techniques (including bank borrowings by the Partnerships and the non-interest bearing revolving credit facility provided by the General Partner) to avoid significant seasonal variations in the quarterly distributions of Cash Flow Available for Distribution.

In order to facilitate the Partnerships' ability to make increasing minimum distributions of cash flow from operations to Unitholders, Red Lion has agreed to subordinate current payment of its Incentive Management Fee to an amount sufficient to make Priority Distributions to Unitholders as set forth below (assuming no reductions of Net Invested Capital) unless unexpected expenses or reserves result in the Partnership using such amounts for other purposes:

12-Month Period After Closing of Offering	Priority Distribution Amount	Cash Return on Initial Unit Price
First	$2.00	10.00%
Second	$2.05	10.25%
Third	$2.10	10.50%
Fourth	$2.15	10.75%
Thereafter	$2.20	11.00%

General Partner Distribution Support

The General Partner has agreed to provide, through the first 36 months of operations of the Partnership, a $4 million non-interest bearing revolving credit facility to the Partnership to the extent the Partnership does not have sufficient Cash Flow Available for Distribution to make Priority Distributions to Unitholders. No assurance can be given, however, that the General Partner will have sufficient funds to provide such loan. The facility will only be repaid from operations out of Cash Flow Available for Distribution in excess of the Priority Distributions. To the extent not repaid from operations, the revolving credit facility will be repaid from excess Sale or Refinancing Proceeds prior to payment of any deferred Incentive Management Fees.

Short-Term Investments

The General Partner may make such short-term investments as it deems prudent during interim periods between the receipt of revenues and the distribution of cash to Unitholders and the General Partner and pending payment of operating expenses of the Partnerships.

Dilution

After this offering, the Partnerships will not issue any equity securities in the Partnerships, other than (i) the limited partnership interest in the Operating Partnership to be acquired by the Partnership as contemplated by this Prospectus, (ii) Units issued upon the subdivision of Units or (iii) Units issued upon the conversion of the General Partner's interest into Units in the event of the removal or withdrawal of the General Partner as general partner of the Partnership. See "Summary of the Partnership Agreements—Withdrawal or Removal of the General Partner."

Borrowings

The Hotels will be subject to a Mortgage Loan secured by the Hotels in the aggregate principal amount of $105.87 million if it purchases the 10 Hotels or $118.37 million if the Underwriters' over-allotment option is exercised. In addition, a $10 million revolving credit line to meet working capital and other cash requirements will be provided to the Operating Partnership by the same Banks who are providing the Mortgage Loan. This credit line will bear interest at a floating rate. A credit agreement between the Operating Partnership and the Banks provides that the Mortgage Loan and the credit line will each be secured by a first lien on the Hotels. See "Use of Proceeds" and "Acquisition of the Hotels." The General Partner will also provide, pursuant to the terms of the Partnership Agreement, a $4 million non-interest bearing revolving credit facility to the Partnership to the extent Cash Flow Available for Distribution is insufficient to make the Priority Distribution. See "Investment Objectives and Policies —General Partner Distribution Support." The Partnerships may establish additional banking relationships that will allow them to borrow funds, if needed. The General Partner or its Affiliates may loan additional funds to the Partnerships. See Section 6.8 of the Partnership Agreement.

EFFECT OF ALTERNATIVE INFLATION RATES ON INVESTMENT—HYPOTHETICAL INTERNAL RATES OF RETURN

The return to a Unitholder from an investment in the Partnership will depend upon a number of factors, including those described in this Prospectus. See "Certain Considerations," "Conflicts of Interest," "The Hotels," "Red Lion" and "Federal Income Tax Considerations." Two of the most important factors that will affect the return to a Unitholder will be (i) the relative rates of growth, if any, in the operating revenues and expenses of the Hotels and (ii) appreciation, if any, realized upon Sale or Refinancing of Hotels. The table below illustrates the alternative hypothetical internal rates of return from an investment in the Partnership for the 11 Hotels over the first ten years of the Partnerships' operations if the assumptions, described below were to materialize under six different inflation rate scenarios (0%, 2%, 4%, 6%, 8% or 10% per annum). The inflation rates shown are only mathematical rates of increase in revenues and expenses commencing in the second year of operations, without regard to the cause thereof, and are not intended to refer to any specific economic index or indicator. THE TABLE IS NOT A PROJECTION OR FORECAST OF THE ACTUAL OR ESTIMATED RESULTS FROM AN INVESTMENT IN THE PARTNERSHIP. INSTEAD, THE PURPOSE OF THE TABLE AND THE ACCOMPANYING EXPLANATION OF THE PARTNERSHIPS' FUTURE PERFORMANCE IS INTENDED TO ILLUSTRATE THE SENSITIVITY OF THE INTERNAL RATES OF RETURN TO VARIATIONS IN THE RATES OF INFLATION, IF ANY. NO ASSURANCE IS OR CAN BE PROVIDED THAT THE ASSUMPTIONS SET FORTH WILL MATERIALIZE OR THAT ANY OF THESE VARIABLES WILL NOT DECLINE OR WILL NOT GROW AT SOME RATE OTHER THAN ONE OF THE SIX RATES USED FOR PURPOSES OF THE TABLE.

To illustrate meaningfully the effect of changes in the rate of inflation, if any, the Partnerships have made various assumptions (including certain simplifying assumptions, as well as assumptions of growth in revenues and expenses before giving effect to the inflation assumptions set forth below) with respect to other factors affecting their operations. While recognizing the uncertainties associated with each of the factors for which such assumptions are made, the Partnerships and the General Partner believe the assumptions are reasonable in the aggregate, given the specific purpose for which the table is presented and the ten-year period covered by the table. NEVERTHELESS, CERTAIN OF THESE ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE, AND VARIOUS EVENTS AND CIRCUMSTANCES THAT WILL AFFECT THE VALIDITY OF THESE ASSUMPTIONS ARE LIKELY TO OCCUR. ACTUAL RESULTS WILL VARY FROM ASSUMPTIONS AND THE VARIATIONS MAY BE MATERIAL. The alternative hypothetical internal rates of return set forth in the table are computed on a pretax basis and do not take into account any income taxes that a Unitholder may be required to pay with respect to Partnership income allocated to the Unitholders or cash distributions made to the Unitholders. See "Federal Income Tax Considerations."

Hypothetical Internal Rates of Return
Over the First 10 Years of the Partnerships' Operations
Under Alternative Inflation Rate Scenarios

Hypothetical Assumed Annual Inflation Rates	Hypothetical Internal Rates of Return on a Pre-Tax Basis
0%	8.6%
2%	12.2%
4%	14.3%
6%	16.3%
8%	18.3%
10%	20.5%

The "internal rate of return" represents the discount rate that must be applied to a cash flow stream over a period of time from an investment in order for the present value of that discounted cash flow stream to equal the amount of the original investment. Although internal rates of return are commonly used for comparing alternative investment opportunities, an internal rate of return does not represent the actual rate of return to an investor from an investment opportunity over the term of the investment (even assuming that all cash is received as and when assumed in the calculation). AN INVESTOR'S ACTUAL RATE OF RETURN OVER THE TERM OF AN INVESTMENT WOULD CORRESPOND TO THE INTERNAL RATE OF RETURN ONLY IF THE ASSUMPTIONS WERE IDENTICAL WITH ACTUAL RESULTS AND IF THE INVESTOR WERE ABLE TO TAKE EACH PAYMENT OF CASH FLOW AND REINVEST THAT PAYMENT IMMEDIATELY IN ANOTHER INVESTMENT HAVING AN ACTUAL RATE OF RETURN EQUAL TO THE INTERNAL RATE OF RETURN APPLICABLE TO THE ORIGINAL INVESTMENT. ACTUAL RESULTS WILL INEVITABLY VARY FROM THE ASSUMPTIONS AND NO ASSURANCE CAN BE GIVEN THAT AN INVESTOR WILL BE ABLE TO REINVEST ANNUAL DISTRIBUTIONS OF CASH FLOW AT A RATE EQUAL TO THE HYPOTHETICAL INTERNAL RATE OF RETURN.

Assumptions

The assumptions used in preparing the hypothetical Table are as follows:

The Table was prepared on the assumption that the Underwriters' over-allotment option will be exercised. In the event the over-allotment option is not exercised, there will be no material impact on the results reflected in the Table.

The Units. Each of the Units will be purchased for the initial Unit price of $20.00 per Unit.

Acquisition of the Hotels. The Operating Partnership will use the gross offering proceeds of $110.4 million and gross mortgage proceeds of $118.37 million to acquire the 11 Hotels. From the gross proceeds, Red Lion has agreed to pay the Partnership an amount sufficient to enable the Partnership to pay all of its organization and offering expenses (including Underwriting Discounts and Commissions), as well as certain other costs (such as loan commitment fees). However, for both tax and financial reporting purposes, the Operating Partnership will have a basis in the Hotels net of all such expenses and costs.

Operations as a Hotel. Each of the Hotels will be operated under the terms of the Management Agreement, and there will not be any Sales of Hotels until the end of 10 years of the Partnerships' operations, when all Hotels will be sold.

General Partner Distribution Support. Amounts, if any, borrowed pursuant to the non-interest bearing revolving line of credit provided by the General Partner will be repaid in accordance with the terms of the Partnership Agreement.

Operating Assumptions:

Revenues

Average Room Rate. The average room rate for 1987 is as assumed in the Financial Forecast. See the Financial Forecast. The average room rate for the Hotels (excluding Colorado Springs Red Lion Inn) subsequent to 1987 increases by the hypothetical assumed annual inflation rates specified in each hypothetical case. The average room rate for the Colorado Springs Red Lion Inn, which opened in December, 1986, is assumed to increase in 1988 and 1989 by 2.33% and 1.88%, respectively, over the assumed annual inflation rate in each hypothetical case and to increase in 1990 and thereafter only by such assumed annual inflation rates.

Occupancy Percentage. The average occupancy level for 1987 is as assumed in the Financial Forecast. See the Financial Forecast. The occupancy level for subsequent years for the Hotels (excluding Colorado Springs Red Lion Inn) is assumed to stay at the 1987 level. Adjusting for the weighted effect of Colorado Springs Red Lion Inn (assumed occupancy levels of 63.8%, 67.0%, and 69.0% for years 1987, 1988 and 1989, respectively), the assumed occupancy levels for the 11 Hotels for the year 1987, 1988 and 1989 are 65.5%, 65.8%, and 65.9% respectively. Occupancy levels remain at 1989 levels thereafter.

Food and Beverage. Food and Beverage revenues for the Hotels for 1987 are as assumed in the Financial Forecast. See the Financial Forecast. For subsequent years, Food and Beverage revenues for the Hotels (excluding Colorado Springs Red Lion Inn) increase by the hypothetical assumed annual inflation rates specified in each hypothetical case. Food and Beverage revenues as a percentage of room revenues for Colorado Springs Red Lion Inn stay approximately the same, and increase in 1988 and 1989 to the extent of the effect of the assumed increases in average room rate and occupancy percentage.

Expenses

Direct Operating Expenses. Direct operating expenses of the Hotels for 1987 are as assumed in the Financial Forecast. See the Financial Forecast. In subsequent years, direct operating expenses for the Hotels (excluding Colorado Springs Red Lion Inn) as a percentage of Gross Revenues are assumed to stay constant. Including Colorado Springs Red Lion Inn, the direct operating expenses of the Hotels in 1989 as a percentage of Gross Revenues are assumed to decrease by 0.4 of a percentage point from over 1987.

The Mortgage Loan. The outstanding balance of the Mortgage Loan will be refinanced at the end of year eight on the same terms and conditions, resulting in no cash impact on the Partnership. During the first ten years of operations, the Partnership will not incur any interest expense (apart from interest on the Mortgage Loan and interest on the loan used to refinance the Mortgage Loan) on any borrowings, nor realize any interest income on working capital or capital reserve balances.

Insurance. Insurance costs for 1987 are as assumed in the Forecast. For 1988 and thereafter, insurance costs are assumed to increase at the hypothetical assumed inflation rates specified in each hypothetical case.

Property Taxes. Property taxes for 1987 are as assumed in the Forecast. In subsequent years, property taxes are assumed to increase by the hypothetical assumed annual inflation rates specified in each hypothetical case except for those hotels in California where the increase is limited to 2% in accordance with current California law.

Management Fees. The Partnerships will pay Red Lion the base and incentive management fees and reimbursements for other expenses in accordance with the Management Agreement. In addition, the Partnership will be obligated to make payments into a capital expenditure reserve account in accordance with the Management Agreement.

Administrative Expenses. The Partnerships will pay the General Partner $325,000 a year as administrative expenses for the first three years of operations. Thereafter, the administrative expenses are increased by the inflation rates specified in each hypothetical case.

Cash Distributions from Operations and Tax Allocations

The following table illustrates (a) the aggregate amount of cash that would be distributed with respect to each Unit for the ten-year period from the date on which the Units are issued and sold, and (b) the aggregate amount of taxable income allocable to each Unit for such period, based upon the assumptions outlined above, the alternative hypothetical assumed inflation rates set forth in the table above, and the distribution arrangements described in this Prospectus:

Hypothetical Assumed Annual Inflation Rates		Ten-Year Period
0%	Cash Distributed per Unit	$18.31
	Taxable Income per Unit	$ 6.54
2%	Cash Distributed per Unit	$20.86
	Taxable Income per Unit	$ 9.56
4%	Cash Distributed per Unit	$21.50
	Taxable Income per Unit	$10.78
6%	Cash Distributed per Unit	$22.26
	Taxable Income per Unit	$12.20
8%	Cash Distributed per Unit	$23.48
	Taxable Income per Unit	$14.34
10%	Cash Distributed per Unit	$25.56
	Taxable Income per Unit	$17.12

The computations of taxable income allocable to the Unitholders are based upon current law and the assumptions outlined above. See "Federal Income Tax Considerations." The table has been prepared on the basis that the assumed hypothetical inflation rates will be constant each year. However, there is virtually no possibility that inflation will occur at the same rate each year. Thus, even if each of the other stated assumptions were to materialize and the average inflation rate over the ten-year period were to equal one of the hypothetical assumed inflation rates, the cash distributed per Unit per year and taxable income per Unit per year would vary. Consequently the cash distributed per Unit and taxable income per Unit over the assumed ten-year period would vary, perhaps materially, from the amounts reflected in the Table above.

Sale of Hotels

It is assumed for the purposes of this presentation that the Hotels would be sold in aggregate and would have a net residual value at the end of the tenth year of the Partnerships' operations equal to $228.77 million (the original purchase price for the 11 Hotels) increased by the compounded hypothetical assumed inflation rates less the assumed transaction expenses in connection with such sale equal to 5% of the aggregate gross proceeds realized on the sale. The following table illustrates (a) the aggregate hypothetical assumed sales values the Hotels would have at the end of the tenth year of the Partnerships' operations, based upon the assumptions outlined above and the specified alternative hypothetical assumed inflation rates, (b) the amount that would be available for distribution to Unitholders, after reduction for assumed transaction expenses in connection with any such sale and for the portion of such sales proceeds distributable to the General Partner and manager under the distribution arrangements described under "Partnership Distributions and Allocations" and "Summary of the Management Agreement" and (c) the amount of net sales proceeds that would be available for distribution with respect to each Unit.

Hypothetical Assumed Annual Inflation Rates	Aggregate Hypothetical Assumed Sales Values for the Hotels	Aggregate Hypothetical Net Sales Proceeds Available for Distribution to Unitholders	Hypothetical Sales Proceeds Available for Distribution Per Unit
0%	$228,770,000	$ 94,503,000	$17.12
2%	$278,869,000	$138,169,000	$25.03
4%	$338,635,000	$177,997,000	$32.25
6%	$409,692,000	$225,317,000	$40.82
8%	$493,897,000	$281,360,000	$50.97
10%	$593,370,000	$347,593,000	$62.97

The extent to which these net residual values would exist at the end of ten years would depend upon a number of factors that cannot be predicted at this time. See "Certain Considerations."

Based on the assumptions used in preparing the above tables, in each case approximately between 63% and 51% of the hypothetical aggregate distributable cash discounted at the internal rate of return will be from operations and the remainder (approximately between 37% and 49%) will be from the hypothetical residual sales proceeds available for distribution to the Unitholders.

The computations of taxable income to the Unitholders is based upon current law and the assumption that none of the Unitholders is a corporation. See "Federal Income Tax Considerations" and "Summary of the Offering—Depreciation Methods and Other Tax Elections."

APPRAISAL

The Hotels have been appraised by Hospitality Valuation Services, Inc., independent, nationally recognized M.A.I. appraisers and valuation consultants (the "Appraiser"). The appraisal report, consisting of individual appraisal reports on each of the Hotels (collectively, the "Appraisal Report"), has been included as an exhibit to the Registration Statement of which this Prospectus is a part. The following discussion is qualified in its entirety by reference to the Appraisal Report, which is available for inspection.

The appraised values of the Hotels were generally developed based on consideration of the cost, income and sales comparison approaches. The income capitalization approach estimates the market value of each Hotel by the discounted cash flow technique, which combines the present value of the projected annual cash flows from operations after expenses but before debt service and depreciation and the present value of net resale proceeds at the end of a specified holding period. The cost approach considers the land value of the sites and depreciated replacement cost of the improvements. The sales comparison approach analyzes sales of similar properties recently sold in the open market. The Appraiser considered the income capitalization approach to be the best approach to estimating the value of the Hotels. The sales comparison approach and the cost approach were employed primarily as means of confirming the valuations reached through the income approach.

The Appraiser prepared the Appraisal Report on the basis of estimates, assumptions and other information developed from its research of the market, knowledge of the hotel industry and information provided by Red Lion. The information provided by Red Lion included, among other things, unaudited historical cash flow statements for each of the Hotels for the fiscal years ended December 31, 1984 and 1985 and for the period January 1 through October 31, 1986, historical tax and insurance payments on each of the Hotels for those fiscal years, legal descriptions, surveys and site plans and various summary sheets and facilities summaries, where available for the Hotels and copies of various building floor plans. The Appraiser assumed the information provided by Red Lion to be accurate and did not make any independent verification.

The appraisals of the Hotels represent the Appraiser's opinion of the market value of each Hotel as of January 1, 1987 (or, in the case of the Colorado Springs Red Lion Inn, as of the date the Hotel is complete and operational, assumed to be on or about February 1, 1987). In addition, the Appraisal Report states that the Appraiser does not believe that sale of the Hotels as a package would adversely affect the values in the Appraisal Report.

A prospective investor must exercise care in evaluating the results of the Appraisal Report. An appraisal is an estimate of value and should not be relied upon as a measure of realizable value. As with any appraisal, the methods and assumptions used by the Appraiser in preparing the Appraisal Report were those that the Appraiser, in its professional judgment, concluded were appropriate. There can be no assurance, however, that such assumptions will be proven correct or that other or different methods or assumptions might not be appropriate. Moreover, the current appraised value of a property is not a prediction of the value that the property may have at any time in the future. Future values of a property will depend on a variety of factors, including the economic success of the property, the impact of inflation on property values, local competitive circumstances, and general economic conditions.

PARTNERSHIP DISTRIBUTIONS AND ALLOCATIONS

General

Distributions of the Partnership's cash from operations and of proceeds of Sales and Refinancings and allocations of Taxable Income and Taxable Loss (as defined in "Allocation of Taxable Income and Taxable Loss," below) are governed by Article V of Partnership Agreement. Such provisions are complex and should be reviewed with care in their entirety by prospective investors. The summary set forth below is qualified in its entirety by the detailed provisions of the Partnership Agreement (including the definitions contained therein), which appears as Exhibit B to this Prospectus and to which reference is hereby made.

Distributions from the Operating Partnership

Cash Flow Available for Distribution of the Operating Partnership and Sale or Refinancing Proceeds of the Operating Partnership will be distributed 1% to the General Partner, as sole general partner of the Operating Partnership, and 99% to the Partnership, as the sole limited partner of the Operating Partnership, after payment of indebtedness (including payments due under the Mortgage Loan), cash expenditures incident to the normal operation of the Operating Partnership's business (including the Base Management Fee and Incentive Management Fee payable to Red Lion), expenses of any Sale or Refinancing, and retention of such cash reserves as the General Partner deems necessary. Cash distributions from the Operating Partnership will constitute the primary, if not the sole, source of the Partnership's cash receipts.

The percentages of Cash Flow Available for Distribution and Sale or Refinancing Proceeds effectively received by Unitholders will be slightly less than the percentages described in the Partnership Agreement with respect to distributions made by the Partnership due to the fact that the Partnership holds only a 99% interest in the Operating Partnership. The percentage distributions described below give effect to the 1% distributions to be made to the General Partner from the Operating Partnership and present the distributions of the Partnerships on a combined basis.

Distributions of Cash Flow Available for Distribution

Cash Flow Available for Distribution and amounts, if any, borrowed under the non-interest bearing revolving credit facility provided by the General Partner will be distributed each year as follows:

First, until the Unitholders have received a 12% non-compounded return on their Net Invested Capital for such year, 98.01% to the Unitholders and 1.99% to the General Partner.

Thereafter, 70% to the Unitholders and 30% to General Partner.

To provide level distributions during the quarters of each year the Partnerships might not distribute in each quarter all cash available for distribution in that quarter, and the General Partner may use various cash management techniques (including bank borrowings by the Partnerships and the non-interest bearing revolving credit facility provided by the General Partner) to avoid significant seasonal variations in the quarterly distributions of Cash Flow Available for Distribution. The General Partner intends to make quarterly distributions within 45 days after the end of each fiscal quarter commencing with the Partnership's first full quarter of operations. It is anticipated that quarterly distributions from Cash Flow Available for Distribution in the first 12 months of the Partnerships' operations will equal $0.50 per Unit ($2.00 per Unit on an annualized basis), subject to adjustment to reflect the actual number of days between the closing of this offering and the end of the Partnership's first full fiscal quarter of operations. There can be no assurance, however, that revenues will be sufficient to permit quarterly distributions.

Distribution of Sale or Refinancing Proceeds

All cash receipts arising from a Sale or Refinancing of a Hotel will be applied (1) to pay expenses incurred in connection with such Sale or Refinancing, (2) to pay any indebtedness of the Partnership or the Operating Partnership required to be paid in connection with such Sale or Refinancing, (3) to pay deferred Incentive Management Fees and (4) to pay amounts outstanding under the non-interest bearing revolving credit facility provided by the General Partner. Thereafter, the General Partner may use a portion of the net proceeds to pay other debt and to establish reserves. Any remaining balance, which is defined in the Partnership Agreement as "Sale or Refinancing Proceeds," will be distributed as follows:

First, 98.01% to the Unitholders and 1.99% to the General Partner until all Unitholders have received, together with all prior distributions of Cash Flow Available for Distribution and Sale or Refinancing Proceeds other than distributions pursuant to clause *second* below, a cumulative non-compounded return on the weighted average balances of their Net Invested Capital, as adjusted from time to time, equal to 12% per annum;

Second, 98.01% to the Unitholders and 1.99% to the General Partner until the Unitholders have received, together with all prior distributions of Sale or Refinancing Proceeds other than pursuant to clause *first* above, cash distributions equal to the return of their Net Invested Capital in full (the "Capital Return Date"); and

Thereafter, 70% to the Unitholders and 30% to the General Partner.

The General Partner has agreed that during the term of the Initial Mortgage Loan, net proceeds of a Refinancing will not be used to pay deferred Incentive Management Fees or to repay the General Partner's credit facility unless an equal amount of such net proceeds is distributed to Unitholders.

The General Partner intends to notify Unitholders of any proposed distributions of Sale or Refinancing Proceeds as soon as practicable after it has determined that any such distributions will be made. See "Reports to Unitholders."

Distribution of Proceeds from a Liquidation

Sale or Refinancing Proceeds from a Sale or Refinancing of one or more Hotels resulting in a liquidation of the Partnership, or a Sale of the Partnership's interest in the Operating Partnership, shall be paid to the Partners who have positive capital account balances after such balances have been adjusted to reflect allocations of Taxable Income and Taxable Loss, as described under "Allocation of Taxable Income and Taxable Loss" below.

Allocation of Taxable Income and Taxable Loss

The profits and losses of the Partnership and the Operating Partnership for federal income tax purposes, including each item of income, gain, loss, deduction or credit (defined in the Partnership Agreement as "Taxable Income" and "Taxable Loss"), will be determined in accordance with the accrual method of accounting.

Taxable Loss generally will be allocated 1.99% to the General Partner and 98.01% to the Unitholders. Taxable Income generally will be allocated first to restore previously allocated losses and thereafter in a manner that reflects, to the extent possible, previous and concurrent distributions (other than distributions constituting a return of Net Invested Capital). The Partnership intends to allocate tax items on a monthly interim-closing-of-the-books basis, with the holder of a Unit on the last day of the month being treated as the holder of such Unit for the entire month. Accordingly, if a Unitholder transfers a Unit prior to the record date for distribution, such Unitholder may be subject to tax on part or all of the income or gain attributable to the period or transaction giving rise thereto, but not be entitled to receive the cash to be distributed as a result thereof.

Determination of Distributions and Allocations among the General Partner and Unitholders

Except as described below, all distributions of Cash Flow Available for Distribution and Sale or Refinancing Proceeds to, and allocations of Taxable Income and Taxable Loss among, the Unitholders will be made in the proportion that the number of Units owned by such Unitholders bears to the total number of Units issued by the Partnership (referred to as the Unitholder's "Proportionate Share" of such distribution or allocation).

In any calendar quarter in which a Unitholder sells, assigns or transfers Units, the Cash Flow Available for Distribution and Sale or Refinancing Proceeds attributable to the Unit will be distributed to the persons shown on the records of the Partnership to have been Unitholders as of the last day of the calendar quarter for which such distribution is to be made. The Partnership intends to allocate its Taxable Income and Taxable Loss among the Unitholders of record in proportion to the number of Units owned by them on a monthly interim-closing-of-the-book basis, with the holder of each Unit on the last day of the month being treated as the holder of such Unit for the entire month.

DESCRIPTION OF THE UNITS

The following paragraphs generally describe the Units and certain provisions of the certificates of limited partnership interest evidencing the Units ("Certificates"). The form of Certificate is included as an exhibit to the Registration Statement of which this Prospectus is a part. The following discussion is qualified in its entirety by reference to the Partnership Agreement and the Certificates.

General

The percentage interest in the Partnership represented by a Unit is equal to the ratio it bears at the time of such determination to the total number of Units in the Partnership outstanding, multiplied by 99%. Each Unit evidences entitlement to a portion of the Partnership's Cash Flow Available for Distribution, Sale or Refinancing Proceeds and allocations of Taxable Income and Taxable Loss, as determined in accordance with certain provisions of the Partnership Agreement, including provisions for increased distributions and allocations to the General Partner (and correspondingly decreased distributions and allocations to the Unitholders) of Cash Flow Available for Distribution and Sale or Refinancing Proceeds above certain levels. See "Partnership Distributions and Allocations." A Unitholder's percentage interest in the Partnership will be diluted only if the General Partner's interest as a general partner is converted into Units upon its withdrawal or removal. See "Summary of the Partnership Agreements—Withdrawal or Removal of the General Partner."

The Units will be registered under the Securities Exchange Act of 1934 and the rules and regulations thereunder, and the Partnership thereafter will be subject to the reporting requirements of such Act. The Partnership will be required to file periodic reports containing financial and other information with the Securities and Exchange Commission.

Units may be held in a "street name" account or by any other nominee holder. In such event, the nominee holder will be required to provide the Partnership an undertaking to provide transferees with copies of all reports issued by the Partnership to the Unitholders. The Partnership will not recognize the transfer of Units held by a nominee holder from one beneficial owner to another unless the nominee holder submits an executed Transfer Application on behalf of the transferee. In the absence of written notice to the Partnership or the Transfer Agent to the effect that a Unitholder is holding such Units in the capacity of nominee holder and identifying the beneficial owner thereof, the Partnership will treat the nominee holder of a Certificate as the absolute owner thereof for all purposes, and the beneficial owner's rights shall be limited solely to those that it has against the nominee holder as a result of or by reason of any understanding or agreement between such beneficial owner and nominee holder.

Transfer of Certificates

Certificates are transferable upon compliance with the procedure described below. A transferee of a Certificate will be an assignee with respect to the Unit evidenced thereby unless and until the General Partner, in its sole and absolute discretion, consents to the admission of such transferee as a substituted limited partner with respect to such Unit and such admission is reflected in the books and records of the Partnership. See "Summary of the Partnership Agreements—Status as Limited Partner or Assignee." Although the General Partner reserves the right, in its sole and absolute discretion, to refuse to consent to the admission as a substituted limited partner of any transferee of a Certificate for any reason or for no reason at all, the General Partner currently anticipates that it generally will consent to the admission of transferees of Certificates who comply with the procedure described below. Refusal by the General Partner to consent to admission of any Unitholder as a substituted limited partner will not affect such holder's right to receive distributions or to vote on any matter submitted for a vote of the Unitholders, including any vote regarding removal of the General Partner.

The Underwriters will be admitted as the initial limited partners. All transferees of the Underwriters will be automatically admitted as substitute limited partners without further action. Payment by such transferees for their Units will constitute their agreement to the terms and conditions of the Partnership Agreement and authority to the General Partner to execute the Partnership Agreement on their behalf. Any subsequent transferee of a Certificate (or his broker, dealer, or nominee holder on his behalf) will be required to execute the form of transfer application on the back of the Certificate, or a written application to the same effect in form satisfactory to the General Partner (a "Transfer Application"), and to deliver this to Manufacturers Hanover Trust Company (the "Transfer Agent") prior to registration of a transfer of the Certificate. A subsequent transferee of a Certificate who has executed a Transfer Application will be deemed to have agreed to be bound by the terms and conditions of the Certificate, to have requested admission as a substituted limited partner in accordance with the terms of the Partnership Agreement and to execute any documents reasonably required by the Partnership in connection with the transfer and such admission, and to have granted the power of attorney described below. See "Summary of the Partnership Agreements—Status as Limited Partner or Assignee." A request by any broker, dealer, or other nominee holder to register transfer of a Certificate, however signed (including any stamp, mark, or symbol executed or adopted with intent to authenticate the Certificate), will be deemed to be execution of a Transfer Application by and on behalf of such nominee and the beneficial owner of such Certificate. Until the transfer of a Certificate has been registered on the books of the Transfer Agent, the Partnership will treat the record holder thereof as the absolute owner thereof for all purposes.

A transferee who does not execute a Transfer Application (either personally or through his broker, agent, or nominee on his behalf) will not be treated either as an assignee or as a record holder of Units and will not receive cash distributions, federal income tax allocations, or reports furnished to record holders of Units. Any transferor who does not notify the Partnership of a transfer of his Units may be subject to a $50 penalty imposed by the Internal Revenue Service. See "Federal Income Tax Considerations—Transfer of Units."

Pursuant to the terms of the Partnership Agreement, each purchaser of a Unit in this offering and each subsequent transferee of a Certificate appoints the General Partner and each of the General Partner's authorized officers and attorneys-in-fact as such transferees' attorneys-in-fact in connection with the ownership of a Unit and admission as a substituted limited partner. See Section 1.4 of the Partnership Agreement.

SUMMARY OF THE PARTNERSHIP AGREEMENTS

The following paragraphs are a summary of certain provisions of the Partnership Agreements. A copy of the Partnership Agreement is included in this Prospectus as Exhibit B. A copy of the Operating Partnership Agreement has been included as an exhibit to the Registration Statement of which this Prospectus is a part and is available for inspection. The following discussion is qualified in its entirety by reference to the Partnership Agreements. Capitalized terms used in the following discussion not otherwise defined herein are defined in the Partnership Agreements.

Certain provisions of the Partnership Agreements are summarized elsewhere in this Prospectus under various headings. With regard to fees and payments to be made to the General Partner and its Affiliates, "Summary of the Management Agreement—Compensation;" with regard to various transactions and relationships of the Partnership with the General Partner and its Affiliates, see "Conflicts of Interest;" with regard to the management of the Partnership and the Operating Partnership, see "Management;" with regard to the transfer of Units, see "Description of the Units;" with regard to distributions of Cash Flow Available for Distribution and Sale or Refinancing Proceeds and allocations of Taxable Income and Taxable Loss, see "Partnership Distributions and Allocations;" and with regard to reports to investors, see "Reports to Unitholders."

Organization and Duration

The Partnerships were recently organized as Delaware limited partnerships. Red Lion Properties, Inc. is the general partner of each of the Partnerships and, upon the closing of this offering, will directly hold an approximately 1% general partners' interest in each of the Partnership and the Operating Partnership. After giving effect to the offering made hereby, the Unitholders will hold a 99% Percentage Interest as limited partners in the Partnership, and the Partnership will hold a 99% Percentage Interest as a limited partner in the Operating Partnership. Both partnerships will dissolve on December 31, 2062, unless sooner dissolved pursuant to their respective partnership agreements. The General Partner has agreed to use all reasonable efforts to insure that its net assets will remain at sufficient levels to meet certain existing tax requirements.

Purposes, Business and Management

The Partnership will contribute the gross proceeds of this offering to the Operating Partnership, which will operate the Hotels. The purposes and business of the Operating Partnership are primarily to engage in owning and operating hotels. The General Partner is authorized in general to perform all acts deemed necessary to carry out such purposes and to conduct the business of the Partnership and the Operating Partnership.

Restrictions on Authority of the General Partner

The authority of the General Partner is limited in certain respects. The General Partner is prohibited, without the prior approval of holders of more than 50% of the total Percentage Interest of limited partners in the Partnership (a "Majority Interest"), from, among other things, selling or exchanging all or substantially all of the Partnership's assets in a single transaction, a series of related transactions or pursuant to a plan of liquidation of the Operating Partnership, causing the Partnership to merge with or into another entity (other than the merger of the Partnership and the Operating Partnership) or amending the Partnership Agreement or the Operating Partnership Agreement, except for certain amendments described below under "Amendment of Partnership Agreements." Except as provided in Section 15.1 of the Partnership Agreement and generally described below under "Amendment of Partnership Agreements," any amendment to a provision of the Partnership Agreement which would adversely affect the interests of the Unitholders in any material respect will require the approval of the holders of a Majority Interest.

General Partner Capital Contribution

The General Partner will not make any current cash contribution to the Partnership or the Operating Partnership. However, the General Partner is obligated to contribute cash to the Partnerships in an

aggregate amount equal to approximately 2% of the amount contributed by the Unitholders upon closing of this offering at the earlier of (i) the time when final liquidating distributions are made or (ii) the removal or withdrawal of the General Partner.

Withdrawal or Removal of the General Partner

The General Partner has agreed that as long as Red Lion is the manager pursuant to the Management Agreement, the General Partner will be an Affiliate of Red Lion. The General Partner has agreed not to withdraw as general partner of the Partnership and the Operating Partnership (with limited exceptions described below) except with the consent of a Majority Interest. The General Partner may be removed (i) if not for cause, by a vote of holders of 75% of the total Percentage Interest in the Partnership, and (ii) if for cause, by a vote of holders of 60% of the total Percentage Interests in the Partnership, subject, in either case, to the selection of a successor General Partner and receipt of an opinion of counsel that such removal and the selection of such a successor would not result in the loss of the limited liability of the Unitholders or cause the Partnership or the Operating Partnership to be treated as other than a partnership for federal income tax purposes. Removal of the General Partner of the Partnership also constitutes removal of the General Partner as general partner of the Operating Partnership. For purposes of removal of the General Partner, "cause" means that a court of competent jurisdiction has entered a final, non-appealable judgment finding the General Partner liable for actual fraud, gross negligence or willful and wanton misconduct. In the event that Red Lion or an Affiliate of Red Lion purchases Units in connection with the exercise of the Underwriters' over-allotment option or otherwise, Red Lion may be able to prohibit the removal of the General Partner other than for cause.

In the event of removal of the General Partner without cause, the General Partner will have the option to require a successor General Partner (if any) to acquire the partnership interest of the departing General Partner as a general partner in the Partnership and the Operating Partnership for a cash payment equal to the fair market value of the departing General Partner's interest in both partnerships as of the effective date of such departure. If the General Partner is removed for cause, a successor general partner will have the option. In either case, such value will be determined by agreement between the General Partner and the successor general partner or, if no agreement is reached, by an independent investment banking firm or other independent expert selected by the General Partner and the successor general partner (or if no expert can be agreed upon, by the expert chosen by agreement of the expert selected by each such general partner). If the option is not exercised by the party entitled to do so, the interest of the General Partner in both the Partnership and the Operating Partnership will be converted into Units based on the value determined as set forth above. The General Partner will have certain registration rights as to any Units that it may own.

If the General Partner's partnership interest is converted into Units as described above, all allocations and distributions by the Partnership will thereafter be made 99% to the limited partners and 1% to the new General Partner.

Subject to any limitations imposed by applicable securities laws, there is no restriction on the sale of any Units owned by the General Partner, subject to the obligation of the General Partner not to withdraw as general partner for the term of the Partnership (with limited exceptions described below). The General Partner may transfer its interest as general partner of the Partnership or the Operating Partnership to an affiliate or upon its merger or consolidation into another entity or the transfer of substantially all of its assets to another entity, provided such entity assumes the rights and duties of the transferee as General Partner and furnishes an opinion of counsel that such transfer would not result in the loss of the limited liability of the Unitholders or cause the Partnership to be treated as other than a partnership for federal income tax purposes. In addition, the General Partner may transfer substantially all of its economic interest in the Partnerships at any time, subject to certain restrictions including its obligation to maintain a 1% ownership interest in each of the Partnerships.

Each limited partner, and each person who acquires a Unit from a prior holder and executes and delivers a Transfer Application with respect thereto, grants to the General Partner a power of attorney to execute and file certain documents required in connection with the qualification, continuance or dissolution of the Partnership, the amendment of the Partnership Agreement and makes the consents and waivers contained in the Partnership Agreement.

Status as Limited Partner or Assignee

Except as described below under "Limited Liability," Units are fully paid, and Unitholders will not be required to make additional contributions to the Partnership.

A transferee of a Certificate (other than the initial transferees of the Underwriters) in order to be registered on the books of the Transfer Agent as the record holder, must execute and deliver a Transfer Application. See "Description of the Units—Transfer of Certificates" for a more complete description of the requirements for the transfer of Units and Certificates. The record holder of a Unit, pending its admission as a substituted limited partner in the Partnership, is entitled to an interest in the Partnership equivalent to that of a limited partner with respect to the right to share in allocations and distributions from the Partnership, including liquidating distributions. The General Partner will vote Units owned by an assignee who has not become a substituted limited partner at the written direction of such assignee. See "Meetings and Voting" below. Transferees who do not execute and deliver a Transfer Application will be treated neither as assignees nor as record holders of Units, and will not receive cash distributions, federal income tax allocations or reports furnished to record holders of Units.

Right to Redeem Units

Liquor licensing authorities in several states where the Operating Partnership will do business may investigate and make findings with respect to the suitability or qualification of Unitholders to hold Units (beneficially or of record) in light of such states' policies in regulating the holding of liquor licenses. If the Partnership determines that the Partnership is threatened with fines or with suspension or revocation of a liquor license because a Unitholder has failed to provide information to establish his suitability or has been found unsuitable to be a Unitholder, and that person fails to dispose of his Units, the Partnership may, upon 30 days notice, redeem Units held by such Unitholder if such Unitholder fails to divest himself of such Units. The redemption price for such Units will be the lower of (x) the average closing price for the past 30 trading days for the Units on the American Stock Exchange or, if the Units are not so listed, the fair market value of the Units on the date fixed for redemption or (y) the lowest price paid by such holder for any of such Units, multiplied, in either case, by the number of Units to be redeemed. The redemption price will be payable by the Partnership, in the sole discretion of the General Partner, in cash or by delivery of a promissory note of the Partnership bearing interest at a fluctuating rate equal to the prime rate less 2% and payable commencing one year after the redemption date in 20 equal annual installments of principal plus accrued interest. Current payment of such amounts will be required only to the extent cash flow is available after Unitholders receive a current 12% return on their Net Invested Capital.

Right to Call Units

In the event less than 10% of the total Percentage Interest of the Partnership is held by persons other than the General Partner and its affiliates at any time, the General Partner will have the right, which it may assign and transfer to any of its affiliates or to the Partnership, on a date to be selected by the General Partner on at least 10 but not more than 60 days' notice, to purchase all, but not less than all, of the outstanding Units held by such non-affiliated persons. The purchase price per Unit in the event of such purchase shall be the greater of (a) the highest price paid by the General Partner or its affiliates for any Units purchased within 90 days preceding the date on which the General Partner first mails to Unitholders written notice of its election to call outstanding Units, or (b) (i) the average of the closing market prices of the Units for the 30 trading days preceding the date on which such notice is first mailed or (ii) if the Units are not listed for trading on an exchange or quoted by NASDAQ, an amount equal to the fair market value of Units on the date such notice is first mailed, as determined by the General Partner using any reasonable method of valuation.

Amendment of Partnership Agreements

Amendments to the Partnership Agreement may be proposed by the General Partner or by Unitholders owning 25% or more of the Units. The General Partner is not required to submit any proposed amendment to the Unitholders for consideration if the General Partner has received written

consent to such amendment from partners holding the requisite Percentage Interest required to approve the proposed amendment. Proposed amendments (other than those described below) must be approved by holders of at least a Majority Interest, except that no amendment may be made which would change the obligations of any Partner, change any rights of, or place additional restrictions on, the General Partner, modify the fees and compensation payable by the Partnership or the Operating Partnership to the General Partner or any of its Affiliates, change the term of the Partnership or give any person the right to dissolve the Partnership other than the General Partner's right to dissolve the Partnership with the approval of a Majority Interest.

Amendments to the Operating Partnership Agreement may be proposed either by the General Partner or by the Partnership as the sole limited partner of the Operating Partnership. Proposed amendments (other than those described below) require the consent of the Partnership, as the limited partner of the Operating Partnership, except that the consent of the General Partner of the Operating Partnership must be obtained if the amendment would change its rights or duties.

The General Partner may make amendments to the Partnership Agreement and the Operating Partnership Agreement without the consent of the Partners or the Partnership, as the case may be, if, among other things, such amendments do not adversely affect such persons in any material respect, or are necessary or desirable to satisfy any requirement, condition or guideline contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute, or are necessary or desirable to implement certain tax-related provisions of the Partnership Agreement or the Operating Partnership Agreement, or are necessary or desirable to facilitate the trading of the Units (including the subclassification of outstanding Units) or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the Units are or will be listed for trading, compliance with any of which the General Partner deems to be in the best interests of the Partnership, the Operating Partnership and the Unitholders, or are required or contemplated by the Partnership Agreement or the Operating Partnership Agreement, respectively.

Meetings and Voting

Record holders of Units on the record date set pursuant to the Partnership Agreement will be entitled to notice of, and to vote at, meetings of limited partners of the Partnership and to act with respect to matters as to which consents may be solicited. With respect to voting rights attributable to Units that are owned by assignees who have not yet been admitted as substituted limited partners, the General Partner shall be deemed to be the limited partner with respect thereto and shall, in exercising the voting rights in respect of such Units on any matter, vote such Units at the written direction of such record holder.

The General Partner does not anticipate that any meeting of Unitholders will be called in the foreseeable future or know of any proposals to be presented to the Unitholders for a vote. Any action that is required or permitted to be taken by the Unitholders may be taken either at a meeting of the Unitholders or without a meeting if consents in writing setting forth the action so taken are signed by partners owning not less than the same Percentage Interest that would be necessary to authorize or take such action at a meeting of the Unitholders. For example, a removal of the General Partner for cause, which requires the vote of the holders of 60% of the Percentage Interests, could also be effected by the written consent of the holders of 60% of the Percentage Interests. The Percentage Interest owned by any Unitholder is equal to the number of units held by such Unitholder divided by the total of all Units outstanding as of the date of such determination. Meetings of the Unitholders of the Partnership may be called by the General Partner or by Unitholders owning at least 20% of the total Percentage Interest. Unitholders may vote either in person or by proxy at meetings. A Majority Interest represented in person or by proxy will constitute a quorum at a meeting of Unitholders of the Partnership. Except for any proposal for removal of the General Partner, substantially all matters submitted to the partners for determination are determined by the affirmative vote, in person or by proxy, of holders of a Majority Interest.

Each owner of a Unit has a vote according to his Percentage Interest as an owner of limited partners' interests represented by his Units. The Partnership Agreement provides that Units held in nominee or street name accounts will be voted by the broker (or other nominee) pursuant to the instruction of the Unitholder unless the arrangement between the Unitholder and his nominee provides otherwise.

Any notice, demand, request, report or proxy materials required or permitted to be given or made to record holders of Units (whether or not such record holder has been admitted as a limited partner) under the terms of the Partnership Agreement will be delivered to the record holder by the Partnership or by the Transfer Agent at the request of the Partnership.

Indemnification

Section 6.9 of the Partnership Agreement and Section 6.8 of the Operating Partnership Agreement provide that the Partnership and the Operating Partnership will, to the fullest extent permitted by law, indemnify the General Partner, its affiliates and its directors, officers, employees, partners and agents and persons serving on behalf of the Partnership and the Operating Partnership in similar capacities with another entity against liabilities, costs and expenses (including legal fees and expenses) incurred by the General Partner or an affiliate or such other persons in connection with litigation or threatened litigation, if the General Partner or an affiliate or such persons acted in good faith and in a manner they in good faith believed to be in or not opposed to the best interests of the Partnership and the Operating Partnership and such General Partner's or an affiliate's or such other persons' conduct did not constitute gross negligence or willful or wanton misconduct. Any indemnification under these provisions will be limited to the assets of the Partnership or the Operating Partnership. The Partnership and the Operating Partnership are authorized to purchase insurance against liabilities asserted against and expenses incurred by such persons in connection with the Partnerships' activities, whether or not the Partnership or the Operating Partnership would have the power to indemnify such person against such liabilities under the provisions described above.

Limited Liability

Assuming that a limited partner does not take part in the control of the business of the Partnership and that he otherwise acts in conformity with the provisions of the Partnership Agreement, his liability under the Delaware Act will be limited, subject to certain possible exceptions, generally to the amount of capital contributed to the Partnership in respect of his Units plus his share of any undistributed profits and assets of the Partnership. Under the Delaware Act, (a) a limited partner is liable, for a period of one year after the date of the return to him of any part of his capital contribution returned without violation of the partnership agreement or the Delaware Act, for the amount of such returned contribution but only to the extent necessary to discharge liabilities of the partnership to creditors who extended credit while such contribution was held by the partnership, and (b) a limited partner is liable for the amount of any capital contribution returned to him in violation of the partnership agreement or the Delaware Act for a period of six years after the return of such contribution. Any such liability that a person may incur as a limited partner of the Partnership is not released by the sale of his Units. Under the Delaware Act, a limited partner may not receive a distribution from the partnership to the extent that, at the time of the distribution and after giving effect to the distribution, all liabilities of the partnership, other than liabilities to partners on account of their interests in the partnership, exceed the fair value of the partnership's assets. The Delaware Act provides that a partner receives a return of his contribution to the extent that a distribution to him reduces his share of the fair value of the net assets of the partnership below the agreed value (as set forth in the records of the partnership) of his contribution which has not been distributed to him. Under the Delaware Act, an assignee who becomes a substituted limited partner of the partnership is liable for the obligation of his assignor to make capital contributions, except that the assignee is not obligated for liabilities unknown to him at the time he became a limited partner and which could not be ascertained from the partnership agreement.

It is contemplated that the Partnership will, through the Operating Partnership, conduct business in California, Colorado, Idaho, Nebraska, Oregon and Washington. Maintenance of limited liability will require compliance with legal requirements in such jurisdictions in which the Partnership and the Operating Partnership conduct business. Limitations on the liability of limited partners for the obligations of a limited partnership have not been clearly established in many jurisdictions. If it were determined that the right or exercise of the right by the limited partners as a group to remove or replace the General Partner, to make certain amendments to the Partnership Agreement or to take other action pursuant to the Partnership Agreement constituted "control" of the Partnership's business for the purposes of the statutes of any relevant jurisdiction, a limited partner might be held personally liable for Partnership obligations under the law of such jurisdiction. The Partnership will operate in such manner as the General Partner deems reasonable and necessary or appropriate to preserve the limited liability of Unitholders.

Books and Reports

The General Partner is required to keep appropriate books of the Partnership's business at the principal offices of the Partnership. The books are maintained for both tax and financial reporting purposes on an accrual basis. The fiscal year of the Partnership is the calendar year.

As soon as practicable, but in no event later than 90 days after the close of each fiscal year, the General Partner will furnish each Unitholder an annual report containing audited financial statements of the Partnership for the past fiscal year. As soon as practicable, but in no event later than 75 days after the close of each calendar quarter (except the fourth quarter), the General Partner will furnish each Unitholder with unaudited financial statements.

The General Partner will use all reasonable efforts to furnish each Unitholder information required for tax purposes within 75 days after the close of each taxable year. Such information will be furnished in a summary form so that certain complex calculations normally required of partners can be avoided. The General Partner's ability to furnish such summary information to Unitholders will depend on the cooperation of such Unitholders in supplying certain information to the General Partner. Every Unitholder (without regard to whether he supplies such information to the General Partner) will receive information to assist him in determining his federal and state tax liability and filing his federal and state income tax returns.

Right to Inspect Partnership Books and Records

The Partnership Agreement provides that a limited partner can for a proper purpose reasonably related to such limited partner's interest as a limited partner, upon reasonable demand and at his own expense, have furnished to him (a) a current list of the name and last known address of each partner, (b) a copy of the Partnership's tax returns, (c) information as to the amount of cash or agreed value of property or other consideration contributed or to be contributed by each partner, (d) copies of the Partnership Agreement, the certificate of limited partnership of the Partnership, amendments thereto and powers of attorney pursuant to which the same have been executed, (e) information regarding the status of the Partnership's business and financial condition and (f) such other information regarding the affairs of the Partnership as is just and reasonable. The General Partner nonetheless intends to keep confidential from the Unitholders trade secrets or other information the disclosure of which the General Partner believes in good faith could damage the Partnership or is not in the best interests of the Partnership, the Operating Partnership or their business or that it must keep confidential by law or under the terms of agreements with third parties.

Termination, Dissolution and Liquidation

The Partnership and the Operating Partnership will continue until December 31, 2062, unless sooner terminated pursuant to the partnership agreements of the Partnership and the Operating Partnership. The Partnership can be dissolved upon the election of the General Partner, if approved by holders of a Majority Interest or, unless a Majority Interest elects to continue the Partnership, by the withdrawal, removal, bankruptcy or dissolution of the General Partner. No voluntary action may be taken to dissolve or liquidate the Partnership, however, unless such action is first proposed by the General Partner. The right of the Unitholders to continue the Partnership upon withdrawal, removal, bankruptcy or dissolution of the General Partner is subject to selection of a successor general partner and receipt by the Partnership of an opinion of counsel that such selection and continuation will not result in the loss of the limited liability of the Unitholders or cause the Partnership to be treated as other than a partnership for federal income tax purposes (unless the Partnership is not already treated as a partnership in all material respects due to changes in federal income tax laws).

Upon dissolution, the General Partner or other person authorized to wind up the affairs of the Partnership and the Operating Partnership (the "Liquidator") will liquidate the Partnership's and the Operating Partnership's assets and apply the proceeds of the liquidation in the order of priority set forth in the Partnership Agreement and the Operating Partnership Agreement. The Liquidator may defer liquidation or distribution of the Partnership's and the Operating Partnership's assets and/or distribute assets to the partners in kind if it determines that a sale would be unsuitable.

FEDERAL INCOME TAX CONSIDERATIONS

This section was prepared by counsel for the Partnership, and in counsel's opinion, it addresses the material federal income tax considerations that may be relevant to prospective Unitholders. No attempt has been made, however, to comment on all federal income tax matters that may affect the Unitholders. For instance, this section has limited application to domestic corporations and foreign investors and provides only a brief discussion of state, local and foreign tax considerations. In addition, because an investment in Units may be inappropriate for tax-exempt entities, this section is directed primarily to investors who are not tax-exempt entities. THIS SECTION IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING. SINCE THE INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP WILL NOT BE THE SAME FOR ALL INVESTORS, PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH SPECIFIC REFERENCE TO THEIR OWN TAX SITUATIONS, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL AND OTHER TAX LAWS AND ANY POSSIBLE CHANGES IN TAX LAWS AFTER THE DATE HEREOF.

The following discussion is based on (i) the existing provisions of the Code, applicable Treasury Regulations promulgated or proposed thereunder (the "Regulations"), judicial decisions and current administrative rulings and practices of the IRS, all as of the date of this Prospectus, and (ii) the assumption that the Partnerships will be organized, owned and operated in accordance with the Partnership Agreements and applicable state laws and in the manner described in this Prospectus. No rulings have been or will be requested from the IRS concerning any of the tax matters described herein. Accordingly, there can be no assurance that the IRS or a court will not disagree with any of the statements or with the positions taken by the Partnerships for federal income tax reporting purposes.

Any of the statutes, regulations, rulings or judicial precedents upon which this discussion is based could be changed at any time. Any such changes may or may not be retroactive with respect to transactions prior to the date of such changes and could significantly modify the statements and opinions set forth herein. Potential Unitholders should pay particular attention to the provisions of the Tax Reform Act of 1986 (the "1986 Act"). Many of such provisions are subject to varying interpretations, and the impact and significance of such provisions may not become certain until they have been definitively interpreted by the IRS and the courts. POTENTIAL INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS AS TO THE APPLICABILITY OF THE 1986 ACT TO AN INVESTMENT IN THE PARTNERSHIP.

Legal Opinion

Latham & Watkins, as counsel to the Partnerships, has expressed its opinion that, for federal income tax purposes, (i) each Partnership will be classified as a partnership and not as an association taxable as a corporation, and (ii) an assignee of record will be treated as a "partner" of the Partnership from the date he becomes a record owner of Units, whether or not he is admitted as a Substituted Limited Partner.

Latham & Watkins has also advised the Partnerships that, in its opinion, it is more likely than not that the significant federal income tax benefits to be derived from an investment in Units will in the aggregate be realized. The tax benefits of an investment in the Partnership are limited in the sense that any losses generated will be "passive" in nature and may only be used to offset passive income, either from the Partnership or from other sources. See "Federal Taxation of a Partnership and its Partners—Tax Basis; Limitations on Loss Deductions." Moreover, the General Partner believes that any such passive losses will be minimal. Accordingly, if there is a tax advantage to be gained from an investment in the Partnership, it lies in the ability of the Hotels, in any taxable year, to generate Cash Flow Available for Distribution in excess of taxable income. In this connection, in addition to Hotel operating costs, the principal federal income tax deductions to be claimed by the Partnerships relate to management fees, depreciation, and Mortgage Loan interest.

Latham & Watkins is not able to opine with respect to certain issues that involve: (i) the valuation of assets, (ii) facts ascertainable only in the future (such as the availability, timing and amount of deductions or credits claimed by the Partnerships), or (iii) legal matters uncertain as to the outcome on the merits.

Counsel's opinions are based on its interpretation of the applicable authorities, the facts set forth in this Prospectus and certain factual representations made by the General Partner. If such facts or representations are inaccurate, Counsel's opinion may not apply to such changed circumstances. Prospective Unitholders should be aware that an opinion of counsel represents only such counsel's best legal judgment; it is subject to and limited by the assumptions made and matters referred to therein; and it is not binding on the IRS or the courts. Accordingly, there can be no assurance that the opinions set forth herein would be sustained by a court, if contested, or would not be significantly modified by future legislative or administrative changes or court decisions. Such changes may or may not be retroactively applied with respect to transactions contemplated herein.

Tax Status of the Partnerships

The expected federal income tax treatment for Unitholders will be available only if the Partnerships are treated as "partnerships" for federal income tax purposes and not as "associations" taxable as corporations. A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner is required to report on his federal income tax return his allocable share of the partnership's income, gains, losses, deductions and credits. If either Partnership were treated as an association taxable as a corporation in any taxable year: (i) its net income would be taxed at corporate rates; (ii) its income, gains, losses, deductions and credits would not be passed through to the Unitholders; (iii) its distributions would be treated as taxable dividend income (to the extent of its current and accumulated earnings and profits), as a nontaxable return of capital (to the extent of a "shareholder's" basis in his interest) and then as a taxable capital gain; and (iv) it would not be entitled to any deduction with respect to its distributions. Treatment of either Partnership as an association taxable as a corporation would therefore result in a material reduction in such Partnership's Cash Flow Available for Distribution and the after-tax return to the Unitholders.

Counsel is of the opinion that the Partnerships will be treated as partnerships for federal income tax purposes. Counsel's opinion is based on existing provisions of the Code, Regulations, IRS published rulings and court decisions and is conditioned upon the following representations of the General Partner:

(i) the General Partner, at all times while acting as general partner of the Partnerships, will have a net worth (which will be available to the Partnerships' creditors) equal to at least 10% of the capital contributions made by the Limited Partners, which net worth will be calculated based on the current fair market value of the General Partner's assets but without regard to its interests in, and accounts and notes receivable from and payable to, the Partnerships and any similar partnerships;

(ii) the Partnerships will be operated in accordance with applicable provisions of the Act, the Partnership Agreements and in the manner described in this Prospectus; and

(iii) the General Partner will hold its interests as general partner in the Partnerships for its own account and will not act under the direction of, or as agent for, the Unitholders.

Counsel's opinion is also based on the assumption that if the General Partner ceases to be the general partner of either or both of the Partnerships, any successor general partner will make and satisfy the foregoing representations with respect to the Partnership(s) of which it is the general partner. There can be no assurance, however, that the General Partner (or any successor general partner) will fulfill its representations, and hence, there can be no assurance that one or both of the Partnerships will not be reclassified as an association taxable as a corporation.

Counsel's opinion is also based on Section 301.7701-2 of the Regulations which provides that an organization qualifying as a limited partnership under state law will be classified as a "partnership" for federal income tax purposes, unless it has more corporate characteristics than noncorporate characteristics. For this purpose, the corporate characteristics that must be considered are: (i) centralized management, (ii) continuity of life, (iii) free transferability of interests and (iv) limited liability. In Counsel's opinion, the Partnerships will not possess a majority of such characteristics.

The Partnerships will not seek a ruling from the IRS on the question of their classification as partnerships. In Revenue Procedures 72-13, 1972-1 C.B. 735, and 74-17, 1974-1 C.B. 438, the IRS published procedural guidelines prescribing the circumstances in which favorable rulings may be issued to limited partnerships. The Partnerships may not comply with all of the tests enumerated in such Revenue Procedures. However, these Revenue Procedures indicate that they are not to be applied as substantive rules of law regarding the determination of partnership status or as criteria for the audit of taxpayers' returns.

There can be no assurance that the current Regulations with respect to partnership classification will not be amended, or that Congress will not enact legislation relating to this issue. The IRS has announced that it is studying the net worth requirements for general partners of limited partnerships and that substantially more stringent requirements may be imposed on general partners than exist under present law, including a requirement that general partners, whether individuals or corporations, have and maintain a net worth (exclusive of any interest in the partnership) of at least 10% of the value of total contributions to the partnership.

Finally, legislative proposals have been introduced from time to time which would classify any limited partnership with more than 35 limited partners, such as the Partnership, as an association taxable as a corporation, except to the extent relief might be provided under a transitional or grandfather provision. On June 9, 1986, a senior Treasury Department official stated in testimony before a panel of the House Ways and Means Committee that publicly traded limited partnerships should be classified as corporations for federal income tax purposes. Furthermore, Congressional hearings to consider the taxation of "pass-through" entities, including publicly traded limited partnerships, have been scheduled for Spring 1987. Accordingly, no assurance can be given that the Partnership could avoid classification as a corporation under any legislation that might be enacted. In this connection, see "Termination of the Partnership for Tax Purposes." SINCE THE LEGISLATIVE PROCESS IS ONGOING, PROSPECTIVE UNITHOLDERS ARE STRONGLY URGED TO CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO ALL DEVELOPMENTS IN THE TAX LAWS.

The remainder of this section assumes that the Partnerships will be classified as partnerships for federal income tax purposes.

Tax Status of Unitholders Who Are Not Limited Partners

Assignees of Units will be registered on the books of the Transfer Agent as owners of such Units and, after proper notice is given to the General Partner, generally will be considered for admission to the Partnership as substituted limited partners. Assignees of record who are not admitted as substituted limited partners will be entitled under the Delaware Act or the Partnership Agreement to the same rights as limited partners with respect to Partnership allocations and distributions and to essentially the same voting rights as limited partners. The rights of a transferor limited partner with respect to a Unit will terminate upon the transfer of the Unit, whether or not the transferee is admitted as a substituted limited partner. Counsel is of the opinion that, under these circumstances, an assignee of record will be treated as a "partner" of the Partnership for federal income tax purposes from the date he becomes the record owner of a Unit, whether or not he is admitted as a substituted limited partner.

An investor whose Units are held in "street name" should also be treated as a "partner" for federal income tax purposes, except in the case of an investor whose Units are held in a margin account and are loaned to a "short seller" to cover a short sale of Units. Such an investor will not be considered as owning any Units during the period they are on loan. As a result, any loss of the Partnership during such period will not be reportable by such an investor, and any distributions received by him during such period will be fully taxable upon receipt without regard to the Partnership's income or loss during such period. Accordingly, Unitholders whose Units are held in a margin account should consider instructing their brokers not to lend their Units.

Federal Taxation of a Partnership and its Partners

General. As discussed above, the Partnership will not be subject to federal income tax as an entity. Rather, each Unitholder will be required to report on his federal income tax return his allocable share of the income, gains, losses, deductions, credits and tax preference items of the Partnership for the

Partnership's taxable year ending with or within his taxable year. Because Unitholders will be required to report their shares of Partnership taxable income without regard to whether they receive cash distributions of that income, Unitholders may be liable for federal income taxes with respect to Partnership income even though they have not received cash distributions from the Partnership sufficient to pay such taxes.

Accounting Method; Tax Information. The Partnership will use the accrual method of accounting in reporting income and will compute income on the basis of a calendar year taxable year. Under the 1986 Act, partnerships are required to adopt the same taxable year as the partners owning a majority interest in partnership profits and capital. If partners owning such a majority interest do not have the same taxable year, the partnership is required to adopt the same taxable year as all of its principal partners (*i.e.*, persons who have an interest of 5 percent or more in partnership profits or capital). If neither partners owning a majority interest nor all of the principal partners have the same taxable year, the partnership must adopt the calendar year. It is not clear how these rules apply in the case of a publicly-traded limited partnership, such as the Partnership. Thus, there can be no assurance that the Partnership would not be required to adopt a taxable year other than the calendar year.

The Partnership will be required to file an information return for each taxable year on Form 1065. In addition, the General Partner will prepare and furnish to each Unitholder of record during each taxable year the information relating to the Partnership that must be included in the Unitholder's federal and state income tax returns for that year. See "Partnership Tax Returns and Possible Audit."

Tax Basis; Limitations on Loss Deductions. A Unitholder may deduct his share of Partnership losses only to the extent such losses do not exceed his tax basis in his Units. Generally, the tax basis of any Unitholder in his Units will be equal to the cost of the Units (i.e., the amount actually paid), plus his share of certain Partnership liabilities, as discussed below. Such basis will be increased by (i) the Unitholder's distributive share of Partnership income (including capital gain and tax-exempt income, if any), and (ii) any increase in the Unitholder's share of Partnership nonrecourse liabilities (which includes his share of Operating Partnership nonrecourse liabilities). Such basis will be decreased (but not below zero) by (i) the Unitholder's share of Partnership distributions, (ii) the Unitholder's distributive share of Partnership loss and any expenditures that are neither deductible nor properly chargeable to capital account and (iii) any decrease in the Unitholder's share of Partnership nonrecourse liabilities.

A Unitholder's tax basis in his Units will include his share of the Partnership's nonrecourse liabilities (i.e., liabilities as to which no Partner has any liaiblity), except, in all likelihood, those liabilities, such as the $4 million non-interest bearing revolving credit facility, which are owed to the General Partner or an affiliate of the General Partner. A Unitholder's share of nonrecourse liabilities will be determined in accordance with the ratio in which profits are shared under the Partnership Agreement. However, such liabilities are included in basis only to the extent that they do not exceed the fair market value of the property securing such liabilities.

If current recognition of a Unitholder's distributive share of Partnership losses would reduce the tax basis of his Units below zero, the recognition of such losses must be deferred until such time as the Unitholder's basis in his Units increases above zero.

The 1986 Act significantly restricts the ability of Unitholders who are individuals, estates, trusts, personal service corporations, and (to a lesser extent) closely-held corporations to use any net losses from the Partnership to offset income from other sources. Specifically, the 1986 Act provides that after 1986, losses from business activities in which such a taxpayer does not materially participate ("Passive Losses") are allowable only to the extent of his income from such activities. Any Partnership losses allocable to the Unitholders will be Passive Losses.

Passive Losses in any year cannot be used to offset earned income, active business income or portfolio income (such as dividends, interest, royalties and nonbusiness capital gains), including portfolio income passed through to a taxpayer from a nonparticipatory activity, but can only be used to offset income from other passive activities. Passive Losses which are not deductible in any year may be carried over to succeeding years and used to offset income from passive activities in such succeeding years and may be deducted upon the taxpayer's disposition of his entire interest in the passive activity. Unitholders which

are closely held corporations may use their share of Passive Losses from the Partnership to offset net active income, but not portfolio income. Investment income of the Partnerships, such as income earned on reserves, will constitute portfolio income and thus, will not be offset by the Partnerships' Passive Losses. Any interest expense attributable to Partnership borrowings, including the Mortgage Loan, or to indebtedness incurred by a Unitholder to acquire or carry his Units, will be subject to the limitations on the deductibility of Passive Losses.

Although it is expected that each Unitholder's share of Partnership income for tax purposes in any year (except to the extent such income is interest, dividend or other portfolio income) could be offset by any Passive Losses generated by the Partnership in prior years or by the Unitholder's Passive Losses from other activities, the 1986 Act grants the Treasury Department authority to promulgate Regulations under which certain nonparticipatory partnership income could not be offset by any Passive Losses from the Partnership or from other passive activities. This grant of authority is broad and hence, there can be no assurance that Partnership income may be offset by Passive Losses. A recent statement by a Treasury official indicates that the income of publicly traded limited partnerships, such as the Partnership, may be treated as portfolio income. Moreover, it is possible that the IRS could promulgate Regulations under which all or a portion of the distributions to Unitholders from the Partnership represent portfolio income, with the possible additional result that Unitholders might be deemed to have an additional Passive Loss in a corresponding amount.

Section 465 of the Code generally provides that a taxpayer cannot deduct losses arising from an activity to the extent such losses exceed the aggregate amount with respect to which the taxpayer is "at risk" in such activity, i.e., generally the sum of the amount of capital contributed by him to the activity and his share of any activity-related liabilities, as to which the lender has recourse against him. The 1986 Act extended the at risk rules to the activity of holding real property, but provides that certain qualified nonrecourse financing attributable to such activity is treated as an amount at risk. Such qualified financing includes nonrecourse indebtedness, such as the Mortgage Loan, which is secured by the real property used in the activity and the lenders of which are one or more banks. If the Partnerships are deemed to be engaged in any activity other than the holding of real property, any losses from such activity will not be deductible in any taxable year to the extent that they exceed the amount the Unitholders are considered to have at risk in such activity. For example, the Partnership's operation of a restaurant located next door to a Hotel might be deemed, at least in part, to be an activity other than the holding of real property. If so, losses allocable to the restaurant activity would be subject to the at risk limitations, and non-recourse indebtedness attributable to that activity would not be treated as qualified nonrecourse financing.

Cash Distributions. In determining his federal income tax, each Unitholder must take into account his distributive share of the Partnership's income, gains, losses, deductions, credits and preference items irrespective of any cash distributions received by him during the taxable year. Cash distributions received by a Unitholder generally will not be taxable as income to the extent that they do not exceed his tax basis in his Units immediately prior to distribution. Instead, the amount received will reduce his tax basis in such Units (but not below zero). Cash distributions in excess of such basis generally will be considered to be gain from the sale or exchange of the Unitholder's Units taxable in accordance with rules described below. See "Transfer of Units." A Unitholder's share of any decrease in the Partnership's nonrecourse liabilities will be treated as a cash distribution.

Partnership Allocations. Under Section 704(a) of the Code, a partner's share of partnership items of income, gain, loss, deduction and credit will be determined by the partnership agreement. However, if the allocations in the partnership agreement do not have "substantial economic effect," Section 704(b) of the Code provides that partnership items will be allocated in accordance with the partners' interests in the partnership, taking into account all of the facts and circumstances.

The Partnership's Taxable Income and Taxable Loss (and any items thereof) will be allocated, for both accounting and federal income tax purposes, as provided in the Partnership Agreement. Taxable Loss will generally be allocated among the General Partners and the Unitholders in accordance with their Percentage Interests. Taxable Income will generally be allocated as follows: first, to restore previously allocated Taxable Losses, and second, in a manner that reflects, to the extent possible, both previous and

current Partnership distributions (other than distributions constituting a return of Invested Capital). The allocation provisions will be recognized for federal income tax purposes if they are considered to have "substantial economic effect" or are in accordance with the Partners' interests in the Partnership and are not "retroactive allocations" (as described below).

The Regulations under Section 704 of the Code provide, in general, that an allocation has "economic effect" if (a) the allocation is reflected as an appropriate increase or decrease in each partner's capital account, (b) liquidation proceeds are distributable throughout the term of the Partnership, in accordance with the partners' positive capital account balances, and (c) any partner with a deficit in his capital account following the distribution of liquidation proceeds is required to restore the amount of such deficit to the Partnership (either for distribution to other partners in accordance with their positive capital account balances, or for payment to creditors). Deductions attributable to nonrecourse debt do not have economic effect and, hence, must be allocated in accordance with the partner's interests in the Partnership.

Special allocations may have "economic effect", even in the absence of a full obligation to restore deficit capital accounts upon the liquidation of a partnership, if the partnership agreement contains a provision that satisfies the alternate test of economic effect set forth in the Section 704(b) Regulations. In addition, allocations of deductions and losses associated with nonrecourse debt may be given effect if the partnership agreement contains a "minimum gain" allocation.

Under the alternate test for economic effect, the unlimited capital account deficit makeup obligation is waived if (1) the agreement contains a "qualified income offset" provision, and (2) the allocation does not cause or increase a deficit balance in a partner's capital account (as specially adjusted for certain items, including reasonably anticipated future distributions), as of the end of the partnership taxable year to which the allocation relates. A qualified income offset provision requires that in the event of any unexpected distribution (or specified adjustments or allocations) there must be an allocation of income or gain to the distributee that eliminates the resulting capital account deficit as quickly as possible.

Allocations of income and loss attributable to nonrecourse indebtedness generally will be respected, even in the absence of a deficit restoration obligation, if, pursuant to a minimum gain allocation in the Partnership Agreement (a) losses or deductions attributable to the nonrecourse indebtedness do not cause the partners' deficit capital accounts to exceed the "minimum gain" (defined as the excess of the outstanding principal balance of the nonrecourse indebtedness over the adjusted basis of the property securing such indebtedness) and (b) income or gain attributable to the nonrecourse indebtedness will be allocated, in an amount not less than the minimum gain, to those partners with deficit capital accounts.

A special allocation must not only have economic effect to be respected, but also, such economic effect must be substantial. In general, the economic effect of an allocation is substantial if there is a reasonable possibility that the allocation will affect substantially the dollar amounts to be received by the partners from the partnership, independent of tax consequences.

The General Partner believes that the allocations of Taxable Income and Taxable Loss (and items thereof) under the Partnership Agreements should generally be considered to have "substantial economic effect," and that the allocations of any deductions attributable to nonrecourse indebtedness under the Partnership Agreements should be deemed to be in accordance with the Partners' interests in the Partnerships. In addition, the Partnership Agreements contain both a minimum gain allocation and a qualified income offset provision. However, because the Section 704(b) Regulations have only recently been issued and their application in many situations is unclear, there can be no assurance that the allocations of Taxable Income and Taxable Loss, the minimum gain allocation, or the qualified income offset provision, contained in the Partnership Agreements will be accepted as valid by the IRS. If any allocation of Taxable Income and Taxable Loss fails to satisfy the requirements set forth in the Regulations, the allocated items will be reallocated among the Partners based on their respective interests in the Partnerships, determined on the basis of all the relevant facts and circumstances. Such a reallocation, however, would not alter the distribution of the Partnership's Cash Flow Available for Distribution.

Retroactive Allocations. Retroactive allocations of income, gains, deductions, losses and credits are not permitted under the federal income tax laws. Section 706(d) of the Code, as amended by the Tax Reform Act of 1984 (the "1984 Act"), generally requires that partnership items be allocated among transferors and transferees of partnership interests, as well as among partners whose interests otherwise vary during a taxable period, on a daily basis.

However, the Conference Committee Report (the "Report") on the 1984 Act states that the Secretary of the Treasury will prescribe Regulations providing a convention permitting allocations to be made on a monthly basis. While the Report contemplates a monthly convention under which all items of income and deduction during a month would be allocated to partners holding interests on the fifteenth day of the month, an explanation prepared by the Staff of the Joint Committee on Taxation (the "Staff Report") and statements made by then Senate Majority Leader Dole suggest that the Regulations may permit in certain non-abusive cases a monthly convention allocating income and deductions to partners holding interests on the last day of the month—the method that the Partnership intends to use. The Staff Report appears, however, to restrict the use of a monthly convention to dispositions of less than all of a partner's interest. In any event, the Staff Report and the floor debates reflect Congress' intention that any Regulations limiting the use of allocation conventions would apply only on a prospective basis. The Report also states that the Secretary may provide for other conventions and may deny the use of any convention which could result in significant tax avoidance.

On December 13, 1984, the IRS announced in Information Release 84-129 that partnerships, such as the Partnership, which use an "interim-closing-of-the-books" method of apportionment between transferors and transferees, as opposed to a proration method of apportionment, may adopt a semi-monthly convention under which partners entering during the first 15 days of the month are treated as having entered on the first day of the month, and partners entering after the 15th day of the month are treated as having entered on the 16th day of the month. This Information Release does not address the availability of a monthly convention.

The Partnership intends to allocate its income and loss among the Unitholders of record in proportion to the number of Units owned by them using a monthly "interim-closing-of-the-books" method. Accordingly, with respect to any Unit that is transferred during any calendar month, the distributive share of any Partnership Taxable Income or Taxable Loss (or items thereof) for such month will be allocated to the Unitholder of record of such Unit on the last day of that month, beginning with the first full calendar month in which occurs the Commencement Date or, if later, the date on which the Underwriters' over-allotment option is exercised. Because no Regulations regarding monthly allocation conventions have been adopted and the law on the issue is uncertain, there can be no assurance that the Partnership will be permitted to use the "end of the month convention" described above. If such convention is not permitted, or if it is limited to transfers of less than all of a Unitholder's Units or to partnerships using a proration method of allocation, the IRS might contend that Partnership Taxable Income or Taxable Loss must be allocated among the Unitholders in a manner different from that presently contemplated (for example, on a daily basis). In that event, the respective tax liabilities of the Unitholders might be adjusted, and some Unitholders might be allocated additional income. The Partnership Agreement authorizes the General Partner to revise the Partnership's method of allocating income and loss between transferors and transferees, as well as among Unitholders whose interests otherwise vary during a taxable period, in order to comply with any Regulations or rulings ultimately published.

The 1984 Act also clarifies the application of the rules relating to retroactive allocations where a "parent" partnership (such as the Partnership) holds an interest in a "subsidiary" partnership (such as the Operating Partnership). Under the 1984 Act, if a partner's interest in the "parent" partnership changes, the items of the "subsidiary" partnership are to be allocated among the partners of the "parent" partnership by (i) assigning the appropriate portion of each such item to the appropriate day in the "parent" partnership's taxable year and (ii) allocating the items assigned to each such day among the partners of the "parent" partnership based on their interest in such partnership as of the close of each such day. The income and loss of the Operating Partnership, and the Partnership's share thereof, will be determined and allocated among the Unitholders of record on a monthly basis, as described above. The General Partner is authorized to revise this method of allocation if necessary in order to comply with any Regulations or rulings ultimately published.

Deductibility of Fees Paid to the Manager

The Operating Partnership will enter into a Management Agreement with Red Lion as manager (the "Manager"). The Manager will manage the Hotels in exchange for an annual Base Management Fee and an annual Incentive Management Fee (collectively, the "Management Fees"). In addition, the Operating Partnership will pay the Manager for its costs incurred in operating the Hotels, and for certain chain services. See "Summary of the Management Agreement."

The Base Fee is payable monthly by the Operating Partnership out of revenues from the operations of the Hotels. The Incentive Management Fee will initially be equal to the sum of (i) 15% of Adjusted Gross Operating Profit up to $36 million for the 10 Hotels ($39.6 million for the 11 Hotels) and (ii) 25% of Adjusted Gross Operating Profit in excess of $36 million for the 10 Hotels ($39.6 million for the 11 Hotels). To the extent Cash Flow Available for Incentive Management Fee (as defined in the Management Agreement) is insufficient, any unpaid Incentive Management Fee earned will accrue and be deferred, provided, however, that the maximum amount accrued and deferred at any time may not exceed $6 million. Whenever the deferred amount is equal to $6 million, the Incentive Management Fee earned will be limited to the portion of such fee that is actually paid on a current basis.

In counsel's opinion, it is more likely than not that the Management Fees will be deductible by the Operating Partnership, as accrued or paid, as described above, provided that such Management Fees are reasonable in amount and that the deductions claimed in respect of such Fees result in a clear reflection of the Operating Partnership's income.

The determination of reasonableness depends on the proof of specific facts, such as the level of services actually rendered, the reasonableness of the fees when compared to fees received by others who perform similar services and the nature of the expenses actually incurred. In this connection, the General Partner believes, and the Appraisal Report indicates, that the Management Fees are commercially reasonable and in accordance with industry standards for persons providing comparable services. Should the IRS disallow deductions for any of the Management Fees, or require any of the expenses deducted by either Partnership to be capitalized, any losses of the Partnership would be decreased and income would be increased.

Notwithstanding Counsel's Opinion, there can be no assurance that the Management Fees will be deductible on a current basis. Because the General Partner is a wholly-owned subsidiary of the Manager, the IRS may attempt to recharacterize the Management Fees as indirect payments to the General Partner or to the Manager as a constructive partner in either Partnership. If so recharacterized, the Operating Partnership's deductions may be disallowed on the theory that the Management Fees constitute constructive distributions to the General Partner, or to the Manager with respect to a constructive interest in the Operating Partnership. In this connection, the IRS has stated that the deduction of amounts paid to general partners in limited partnerships will receive particularly close scrutiny when partnerships' returns are audited.

Further, because the obligation of the Operating Partnership to pay deferred Incentive Management Fees will be non-interest bearing, the IRS could take the position that a portion of such deferred Incentive Management Fees should be treated as interest, the deduction of which should be spread over the entire period that the deferred Incentive Management Fees remain unpaid. Such a result could be mandated by Regulations under Sections 1273(b) and 1274 of the Code, or under Section 467 of the Code. To date, however, no such Regulations have been promulgated. A similar result would ensue in the event (which is considered unlikely) that the Management Agreement were recharacterized as a lease. In this general connection, prospective Unitholders should be aware that the Manager intends to include in its income the full amount of the Incentive Management Fees, as accrued or paid, as described above.

Depreciation, Cost Recovery and Amortization Deductions

General. The Code permits a taxpayer to claim depreciation deductions with respect to property used in a trade or business or held for the production of income. As a general rule, the cost of acquiring or constructing an asset, including the cost incident to such acquisition or construction, may be included in such asset's depreciable basis.

The Partnerships will claim depreciation, cost recovery and amortization deductions with respect to the Hotels and related improvements to the extent permitted by the applicable Code provisions. Although such deductions will reduce the Partnerships' income, they will also reduce the Partnerships' tax basis in the Hotels, thereby increasing the potential gain (or decreasing the potential loss) to the Partnerships upon the ultimate disposition of the Hotels. See "Disposition of Partnership Property."

ACRS. Pursuant to the 1986 Act, a new Accelerated Cost Recovery System ("New ACRS"), is available for tangible real property (other than land) and personal property. Nonresidential buildings and structural components placed in service on or after January 1, 1987 are depreciable over 31.5 years, using the straight-line method. Tangible personal property placed in service on or after January 1, 1987 is depreciable over specified lives based on their class lives under Section 167. Five-year and seven-year property may be depreciated under the double declining balance method, switching to the straight-line method when such method would result in greater allowances, or if the taxpayer elects, under the straight-line method of depreciation.

The Operating Partnership will depreciate its real property using the straight-line method over an average life of approximately 34 years (30% of the Operating Partnership's basis in its real property will be depreciated over 40 years due to the tax-exempt entity status of the General Partner). Similarly, due to the General Partner's status as a tax-exempt entity, the Operating Partnership will depreciate 70% of its basis in personal property under the double-declining balance method (switching to the straight-line method when such method would result in greater allowances), and will depreciate 30% of its basis in personal property under the straight-line method. Such personal property will consist primarily of five-year and seven-year property. Accordingly, the Operating Partnership will recover 70% of its cost of such property over five years or seven years, as the case may be, and will recover 30% of its cost of such property over nine years in the case of five year property, and over ten years in the case of seven year property. The Operating Partnership's basis in leasehold interests will be amortized over their respective remaining terms on a straight-line basis.

The amount of depreciation allowable in the initial taxable year of the Partnerships will be computed using a half-year convention (in the case of personal property) and will be further limited because the initial taxable year will be less than 12 months. For example, in the case of personal property placed in service in a short taxable year, the amount recoverable under New ACRS (after taking into account the half-year convention) must be further reduced pro rata to reflect the short taxable year. If the criteria set forth in Section 1.168-2(f)(4) of the proposed Regulations are adopted without material change, the taxable year of the Partnerships would probably begin for New ACRS purposes upon the closing date of the sale of the Units offered hereby. In the case of real property placed in service in a short initial taxable year, the amount of depreciation otherwise allowable will also be reduced to take account of such short year.

Under the "antichurning" rules of the Code, property will not be eligible for New ACRS if, among other things,

(i) in the case of real property and personal property acquired "incidental to" the acquisition of real property, the property was owned by the taxpayer or a "related person" in 1980; or

(ii) in the case of personal property acquired "incidental to" the acquisition of real property, the property was owned by the taxpayer or a "related person" in 1986.

The personal property described in clause (ii), however, must be depreciated under New ACRS if, for the first full taxable year in which such property is placed in service, the amount allowable as a deduction with respect to such property under the pre-1986 Act rules is greater than the amount allowable as a deduction under New ACRS.

The antichurning rules will not apply if the General Partner is considered to own no more than a 10% interest in the capital or profits of the Partnerships at the time the Partnerships acquired the Hotels. Although there is no clear authority as to how to treat "residual" interests in a partnership for purposes of making a "related-person" determination, the General Partner believes, based upon the anticipated economic returns from the Partnerships, that Red Lion and the General Partner should not be considered

It should be noted that, for purposes of determining the number of Units that are owned by tax-exempt entities, a Unitholder who is a foreign person (or entity) may also be treated as a tax-exempt entity for purposes of Section 168(h) of the Code if 50% or less of his (or its) distributive share of Partnership gross income is subject to U.S. income tax. Although the issue is not free from doubt, the Partnerships' activities should cause foreign Unitholders to be treated as being engaged in a U.S. trade or business; as a result, foreign Unitholders should be subject to U.S. income tax on more than 50% of their distributive share of Partnership gross income. It is possible, however, that foreign Unitholders will be considered tax-exempt entities for purposes of Section 168(h) of the Code.

Allocation of Partnerships' Basis in the Hotels. The Operating Partnership's aggregate tax basis in each Hotel property should be its purchase price therefor as stated in the Real Estate Contract. Further, the Operating Partnership's aggregate tax basis in each Hotel property will be allocated by the General Partner among the various assets of which each such property is comprised, in accordance with their relative values, as reflected in the Real Estate Contract and the Appraisal Report. Accordingly, such allocations should establish the initial tax bases of the Operating Partnership's assets both for purposes of computing depreciation deductions and for the purposes of determining any gain or loss resulting from any subsequent sale or exchange of such assets.

The valuation of the Hotels and the various components thereof (and hence, the correct allocation of the aggregate tax basis among the Hotels and their various components) is an inherently factual question. In making these allocations, the General Partner will review the facts and circumstances relevant to each of the Hotels and the Appraisal Report. In addition, the General Partner expects to rely to a significant extent upon Red Lion's past experience in similar situations. Nevertheless, the IRS may seek to challenge the General Partner's allocation of the purchase price and may assert that the aggregate tax basis of the Hotel properties should be allocated in a different manner that would yield less favorable tax consequences to the Unitholders. For example, the IRS could attempt to allocate a greater portion of the purchase price to items such as land, which is nondepreciable, or to goodwill or other intangible assets that do not have a reasonably ascertainable useful life and therefore are also nondepreciable. Due to the inherently factual nature of these determinations, there can be no assurance the General Partner's allocation of the purchase price will be respected for tax purposes.

Investment Tax Credit

The investment tax credit has been repealed and will not be available in connection with the acquisition of the Hotels.

Organization, Syndication and Acquisition Expenses

Expenses paid by a partnership in connection with issuing and marketing interests therein are not deductible or amortizable. Such expenses include brokerage fees, registration fees and any fees or expenses for securities advice, including advice pertaining to the adequacy of tax disclosure in the offering memorandum. As indicated in "Use of Proceeds," Red Lion has agreed to pay the Partnership an amount sufficient to enable the Partnership to pay all of its organization and offering expenses (including Underwriting Discounts and Commissions), as well as certain other costs (such as loan commitment fees). As a result, the Operating Partnership will have a basis, for both tax and financial reporting purposes, net of all such expenses and costs.

Organizational expenses of a partnership (such as legal fees for the negotiation and preparation of a partnership agreement, accounting fees incident to the creation of a partnership and filing fees) may be capitalized and amortized over a period of not less than 60 months. Expenses incurred in connection with the acquisition of assets by a partnership are considered part of the cost of those assets, and may be deducted, if at all, through depreciation, cost recovery or amortization deductions otherwise permitted with respect to those assets. Finally, start-up expenses of a partnership, as defined in Section 195 of the Code, may be amortized over a period of not less than 60 months if the partnership makes a timely election.

for purposes of the antichurning rules to have a greater than 10% interest in the profits or capital of the Partnership at the time the Hotels are acquired and therefore should not be considered related to the Partnership.

If it is determined that the Operating Partnership's acquisition of real property and personal property violated the antichurning rules, the following consequences would ensue. The Operating Partnership's real property would have to be depreciated over its economic useful life, as determined pursuant to Section 167, and the Operating Partnership's personal property, to the extent of 70% of its cost therefor, would have to be depreciated under the 150% declining balance method (which is reflected in ACRS schedules in effect prior to the 1986 Act) rather than the double declining balance method. As far as real property depreciation is concerned, the General Partner believes that the economic useful life of the Hotels does not exceed 35 years.

Tax-Exempt Use Property. Under Section 168(h) of the Code, cost recovery deductions with respect to property that constitutes "tax-exempt use property" are subject to certain limitations. "Tax-exempt use property" includes the proportionate share of property owned by a partnership that includes both tax-exempt and taxable entities as partners where the allocations of partnership tax items to the tax-exempt partners are not "qualified allocations." "Tax-exempt use property" does not include property predominantly used by a tax-exempt entity, directly or indirectly through a partnership, in an unrelated trade or business the income of which is subject to tax under Section 511 of the Code as unrelated business taxable income. "Qualified allocations" are those, in general, which remain constant during the entire period that the tax-exempt entity is a partner and which have substantial economic effect under Section 704(b)(2) of the Code.

It appears that the Partnership's allocations are not qualified allocations because of the shifts in the interests of the General Partner and the Unitholders after the Unitholders have received cash distributions in any year sufficient to provide a 12% return on the weighted average balance of their Net Invested Capital. Accordingly, to the extent that interests in the Partnership are owned by tax-exempt entities which are not subject to tax on unrelated business income, a portion of the Partnership's assets equal to the largest aggregate share of Partnership income or gain allocable to such entities will be treated as tax-exempt use property.

Under the amendments to Section 168 made by the 1986 Act, it appears that the General Partner will be classified as a tax-exempt entity for purposes of Section 168(h) of the Code, since more than 50% of the General Partner's stock is owned indirectly by a tax-exempt entity that is not subject to tax on unrelated business income. Further, since the General Partner's distributive share of the Partnership's income will not be taxed as unrelated business income, it appears that approximately 30% of the Partnerships' cost basis in nonresidential real property must be depreciated using the straight-line method and a 40-year life and approximately 30% of the Partnerships' cost basis in tangible personal property must be depreciated using the straight-line method and the applicable class lives. An additional portion of the Partnership's cost basis will be subject to such extended depreciation to the extent the General Partner or its parent acquires Units purchased by the Underwriter as a result of exercise of the over-allotment option.

An investment in Units may not be appropriate for tax-exempt entities due to the treatment of Partnership income as unrelated business taxable income. Nevertheless, it is possible that some Unitholders will be tax-exempt entities. In that event, an additional portion of the Hotels would be treated as tax-exempt use property to the extent that Units are owned by tax-exempt entities that are not subject to the tax on unrelated business income with respect to their distributive shares of Partnership income, based upon the largest aggregate share of Partnership income or gain allocable to such tax-exempt entities (which should reflect their proportionate ownership of Units). For these purposes, the term "tax-exempt entity" includes a regular, taxable corporation which is "controlled" by a tax-exempt entity. (Normally, such a taxable corporation would not be subject to the tax on unrelated business income.) It appears that each time a Unit is acquired by a tax-exempt entity not subject to the tax on unrelated business income, an additional portion of the Operating Partnership's real and personal property would be treated as tax-exempt use property. Thus, there can be no assurance that the depreciation deductions allocable to Unitholders will not be reduced by reason of the ownership of Units by tax-exempt entities.

Disposition of Partnership Property

Amount of Gain or Loss. Upon the sale, exchange or other disposition of partnership property, gain or loss at the partnership level is measured by the difference between the amount realized by the partnership and its adjusted tax basis in the property. The amount realized will generally equal the sum of the cash received, the net fair market value of any property received and the outstanding balance of any indebtedness encumbering the property being disposed of and any other indebtedness that is assumed. For this purpose, a foreclosure of the Mortgage Loan would be deemed to be a disposition of the Hotels. In such event, the Operating Partnership (and therefore the Partnership) would recognize gain in an amount equal to the excess of the outstanding principal balance of the Mortgage Loan over its adjusted tax basis in the Hotels, even though the Operating Partnership might realize an economic loss upon such a foreclosure. It is also possible that the net cash proceeds distributed to a Unitholder may not be sufficient to pay the Unitholder's federal income tax liability resulting from a sale or disposition of one or more Hotels.

As a result of the 1986 Act, ordinary income and long-term capital gains will be taxed at the same rate, beginning in 1988. In 1987, long-term capital gains of individuals will be taxed at a maximum rate of 28%, compared to 38.5% for ordinary income. Despite the parity of rates beginning in 1988, capital losses will not be deductible against ordinary income, except to the extent of $3,000 per year for individuals.

Depreciation Recapture. In general, any gain to a partnership arising from a disposition of depreciated personal property (both tangible and intangible) or from a disposition of nonresidential real property depreciated under an ACRS method other than the straight-line method (or another accelerated method) will be treated as ordinary income to the extent of the lesser of previous depreciation deductions or the amount of gain realized upon disposition of the property. To the extent there is no recapture income from the disposition of nonresidential real property due to the use of the straight-line method, Section 291 of the Code requires that 20% of the excess of the amount that would be treated as ordinary income if the property had been depreciated on an accelerated basis over the amount otherwise recaptured will be recaptured as ordinary income to the extent of gain allocable to corporate Unitholders. Any recapture income under the foregoing rules will be recognized in the year of disposition, even if the disposition is pursuant to an installment sale in which gain arising from the disposition otherwise would not be recognized in the year of disposition. The Operating Partnership intends to depreciate the real property components of the Hotels under the straight-line method. In addition, the 1986 Act's repeal of the capital gains exclusion for individuals and elimination of the alternative capital gains tax rate for corporations will mitigate the effects of the recapture provisions of the Code on any subsequent disposition of the Hotels by the Operating Partnership.

Section 1231 Gain or Loss. Any gain in excess of depreciation recapture may be treated as gain described in Section 1231 of the Code if the Hotels are held by the Operating Partnership for more than six months, unless the Operating Partnership is determined to be a "dealer" in the Hotels for federal income tax purposes. If the Operating Partnership were deemed to be a "dealer," any gain on the sale or other disposition of the Hotels would be ordinary income.

A Unitholder's share of the gain or loss from the disposition of the Partnerships' Section 1231 assets will be combined with any Section 1231 gains or losses realized by the Unitholder in that taxable year from sources other than the Partnerships. The Unitholder's net Section 1231 gain will generally be taxed as a capital gain, except to the extent that any of the gain is recaptured as ordinary income, and except to the extent of the Unitholder's unrecaptured net Section 1231 losses for the five preceding taxable years. The term "unrecaptured net Section 1231 losses" means the excess of the aggregate amount of net Section 1231 losses during such five-year period over previously recaptured net Section 1231 losses. A Unitholder's net Section 1231 losses will be treated as ordinary losses.

The significance of the tax treatment of Section 1231 gains has, for the most part, been eliminated by reason of the 1986 Act's repeal of the capital gains exclusion for individuals and elimination of the alternative capital gains tax rate for corporations. Thus, any gains on the Operating Partnership's disposition of the Hotels will generally be taxed at the same rates as ordinary income, subject to applicable transition rules.

The General Partner will treat a portion of the legal, accounting and other expenses incurred in connection with or prior to this offering as organization expenses amortizable over 60 months and a portion of such expenses as incurred in connection with the acquisition of the Hotels. The balance of these expenses and all fees and commissions payable to the Underwriters will be treated as nondeductible syndication expenses. Because the correct allocation and characterization of the amounts comprising syndication, organization and acquisition expenses involve inherently factual questions, there can be no assurance that the IRS will not challenge the Partnership's characterization of such expenses. To the extent any such challenge were successful, the Partnership's Taxable Income would be increased.

Limitations on Deductibility of Interest

Section 163(d) of the Code, as amended by the 1986 Act, substantially limits the deductibility of interest on funds borrowed to purchase or hold property held for investment. "Investment interest" generally is deductible by a noncorporate taxpayer only to the extent of "net investment income." With certain limitations, excess investment interest not allowed as a deduction in one taxable year may be carried forward and deducted in subsequent taxable years to the extent that there is sufficient net investment income in such subsequent taxable years. The deductibility of interest also affects an investor's potential minimum tax liability. See "Minimum Tax."

Investment interest is broadly defined as interest which is paid or accrued on indebtedness incurred or continued to purchase or carry property held for investment. Interest taken into account in determining a taxpayer's Passive Losses, including any interest incurred or continued by a Unitholder to purchase or carry his Units, is not considered investment interest for purposes of the investment interest limitations. See "Federal Taxation of a Partnership and its Partners—Tax Basis; Limitations on Loss Deductions."

Deductibility of Interest Connected with Tax-Exempt Income

Section 265 of the Code disallows any deduction for interest (and for certain other expenses) paid by a taxpayer on indebtedness incurred or continued for the purpose of purchasing or holding obligations the income on which is exempt from tax. The IRS has taken the position that a taxpayer will be deemed to have incurred or continued indebtedness for the purpose of acquiring or holding a tax-exempt obligation if the taxpayer owns tax-exempt obligations and has outstanding indebtedness that is incurred or continued to finance the purchase or holding of other "portfolio investments." Under Rev. Proc. 72-18, 1972-1 C.B. 740, a limited partnership interest is specifically considered to be a "portfolio investment" for this purpose. Thus, in the case of a Unitholder who owns tax-exempt obligations, any interest paid by him in connection with the purchase of his Units could be viewed (depending on his particular circumstances) as incurred in whole or in part to enable him to continue to hold such tax-exempt obligations.

Activity Not Engaged in for Profit

Under Section 183 of the Code, certain deductions may be disallowed to a Unitholder who is determined to lack a profit motive in purchasing his Units, possibly even if the Partnership itself is deemed to have a profit objective. This provision establishes a presumption that an activity is "engaged in for profit" if income exceeds deductions in at least three out of five consecutive years. If the objective test is not met, and if based on the facts and circumstances of a particular situation it is determined that an investment in, or the business of, the Partnerships is "not engaged in for profit," then certain deductions in excess of the income for such year would be disallowed. The allowable deductions in excess of income for any year are those which would be allowable without regard to whether such activity is engaged in for profit.

There can be no assurance that the Partnership will satisfy the criteria for establishing a favorable presumption of a profit motive or that the Partnership will be able to sustain the burden of establishing a profit motive. In addition, since Section 183 of the Code could be applied to the Unitholders or the General Partner individually, no investor should become a Unitholder unless his objective is to secure an economic profit without regard to any tax benefits arising in connection with an investment in the Partnership.

Transfer of Units

General. A Unitholder who sells or transfers his Units (other than by gift or at death) will recognize gain or loss in an amount equal to the difference between the amount realized by the Unitholder and his tax basis in the transferred Units. For these purposes, a Unitholder's share of any Operating Partnership indebtedness attributable to the transferred Units (i.e., nonrecourse indebtedness) will be included in the amount realized on the disposition. Therefore, any gain recognized on the disposition of a Unit at a time when the Mortgage Loan is outstanding could exceed the actual cash proceeds from the disposition. Assuming that the Operating Partnership and the Unitholder are not dealers in the Hotels or Units, gain recognized by a Unitholder on the sale or exchange of that portion of his Units which has been held for more than six months generally will be taxable as long-term capital gain. However, any gain attributable to "substantially appreciated inventory items" and "unrealized receivables" of the Partnerships, as those terms are defined in Section 751 of the Code, will be treated as ordinary income. "Unrealized receivables" would include, among other things, the Unitholder's proportionate share of the amounts that would be recaptured as ordinary income if the Partnerships sold their assets subject to "recapture" at their fair market value at the time the Unitholder transferred his Units. See "Disposition of Partnership Property." Under the Regulations, gain attributable to "substantially appreciated inventory items" and "unrealized receivables" is determined separately by allocating a portion of the amount realized to such ordinary income assets and using the basis such ordinary income assets would have had if distributed to the transferor Unitholder. As a result, a Unitholder may realize ordinary income in respect of such ordinary income assets even though he realizes an overall net loss on the transfer of his Units.

In the absence of an election under Section 754 of the Code, discussed below, it is possible that on the sale or liquidation of his Units, a Unitholder will realize ordinary income in the form of depreciation recapture with respect to depreciation claimed by the Partnerships during the time he was not a Unitholder. Any loss recognized upon the sale of a Unit generally will be treated as a capital loss.

A gift of a Unitholder's Units (including a transfer to a charitable organization) may result in gain to the donor if the donor Unitholder's share of Partnership liabilities exceeds the adjusted tax basis of his Units. Accordingly, a prospective donor Unitholder should consult his personal tax advisor as to the income tax and gift tax consequences of such a gift.

The 1986 Act's repeal of the capital gains exclusion for individuals and elimination of the alternative capital gains tax rate for corporations means that any gains realized by a Unitholder upon the disposition of his Units will generally be taxed at the same rates as ordinary income, subject to applicable transition rules. See "Disposition of Partnership Property."

Apportionment of Basis in Units. The IRS has ruled that a partner must maintain an aggregate tax basis in his aggregate partnership interest (consisting of all interests acquired in separate transactions). Upon a Unitholder's sale of a portion of his Units, such Unitholder would be required to allocate by some equitable apportionment method his aggregate tax basis between the Units sold and the Units retained. (The IRS ruling requires that the apportionment be based on the relative fair market values of such Units on the date of sale.) This requirement effectively would preclude a Unitholder who owns Units that were purchased at different prices on different dates from controlling the timing of the recognition of the inherent gain or loss in his Units by selecting the specific Units that he will sell. The ruling does not address whether this aggregation requirement would result in the tacking of the holding period of previously-acquired Units onto the holding period of more recently-acquired Units. Because the application of this ruling in the context of a publicly traded limited partnership such as the Partnership is not clear, a person purchasing Units in this offering and considering the subsequent purchase of additional Units should consult his own tax advisor as to the possible consequences of the ruling.

Information Return Filing Requirements. Under Section 6050K of the Code and recently adopted Regulations, any Unitholder (including a beneficial owner of Units held in "street name") who sells or exchanges a Unit will be required to notify the Partnership of such transaction in writing within 30 days of the transaction (or, if earlier, by January 15 of the calendar year following the calendar year in which the transaction occurs). The notification must include (i) the names and addresses of the transferor

Unitholder and the transferee: (ii) the taxpayer identification number of the transferor Unitholder and, if known, the transferee; and (iii) the date of the sale or exchange. Any transferor of a Unit who fails to notify the Partnership of the transfer may be subject to a $50 penalty for each such failure. To the extent that purchases and sales of Units are effectuated through broker's transactions, however, the broker is required to file a return under Section 6045 of the Code, and neither the transferor Unitholder nor the Partnership has any filing or notification obligations under Section 6050K of the Code.

Except in the case of broker's transactions, as described above, the Partnership is required under Section 6050K to notify the IRS of any sale or exchange (of which the Partnership has notice) of Units and to report on Form 8308 the names, addresses and taxpayer identification numbers of the transferee, the transferor and the Partnership, the date of the transaction and any additional information required by the applicable information return. The Partnership also must provide this information to the transferor and the transferee on or before January 31 of the calendar year following the calendar year in which the transaction occurs. If the Partnership fails to furnish any such notification or fails to file a return with the IRS, it may be subject to a penalty of $50 per failure, up to an annual maximum of $100,000. If the Partnership's failure to file a return with the IRS is due to an intentional disregard of the filing requirements, then the penalty would be $100 for each such failure, without regard to the $100,000 limitation. Moreover, if the Partnership, in either filing a return with the IRS or furnishing notification to the transferor and transferee, fails to include all of the information required to be shown on such return or statement or includes incorrect information, it would be subject to a penalty of $5 per failure, up to an annual maximum of $20,000. If such failures to include correct information are due to an intentional disregard of the correct information reporting requirement, then the penalty shall be $100 for each such failure, without regard to the $20,000 limitation. In 1985, the IRS released an announcement acknowledging that certain requirements of Section 6050K of the Code cannot be complied with in the case of publicly traded limited partnership interests because, for example, transferors and transferees of such interests cannot be matched. The announcement, however, does not, by its terms, apply to 1987 and subsequent years. Although the IRS may issue a similar announcement which will be effective for future years, there can be no assurance that it will do so, and the Partnership may be subject to the penalties outlined in this paragraph. The Partnership intends to use its best efforts to comply with this filing requirement.

Election Under Section 754

The Code provides for an adjustment to the basis of partnership property upon certain distributions of property to a partner and upon certain transfers of partnership interests, provided that an election has been made by the partnership pursuant to Section 754 of the Code. Any such election, once made, is irrevocable without the consent of the IRS. The general effect of such an election (in conjunction with Section 743 of the Code) is to treat the transferee of an interest in a partnership as though he had acquired a direct interest in the partnership's assets. A Section 754 election is advantageous if the price paid by the transferee for a partnership interest is higher than the transferor's "share" of the aggregate basis of partnership property immediately prior to the transfer since, pursuant to the election, the transferee would take a new stepped-up basis in his "share" of partnership property. Conversely, a Section 754 election is disadvantageous if the price paid by a transferee for a partnership interest is lower than the transferor's "share" of the aggregate basis of partnership property immediately prior to the transfer. Section 734 of the Code generally complements the adjustments made pursuant to Section 743 of the Code by requiring the partnership to adjust the basis of retained assets to reflect certain distributions to partners that are treated for tax purposes similarly to sales or exchanges.

One consequence of the absence of such an election is that upon a sale of any of the Hotels subsequent to a transfer of a Unitholder's Units, profits and losses taxable to the transferee of the Units will be measured by the difference between his share of the amount realized and his share of the Partnership's tax basis in the property (which will equal the transferor's share of the adjusted basis in the property less any depreciation since the transfer). As a consequence, the transferee Unitholder may be subject to tax, which may be levied at ordinary rates, upon a portion of the Partnership's sale proceeds that is actually a return of capital to him. In that case, the transferee Unitholder would have a matching capital loss upon liquidation of the Partnership. In addition, the failure to make a Section 754 election may cause the

amount of depreciation available to a transferee Unitholder to be reduced and thus increase the amount of income that would be taxable to the transferee Unitholder. Therefore, the absence of a Section 754 election may reduce the price at which such Units may subsequently be sold.

Under the Partnership Agreement, the General Partner will make the Section 754 election if at any time after December 31, 1987, the average closing price of the Units over a period of 60 trading days exceeds 125% of the initial public offering price of the Units, unless the General Partner determines that as a result of a change in federal income tax laws or Regulations, the election would not result in a significant advantage to the Unitholders.

The amount that a Unitholder will be able to obtain upon a sale or other disposition of his Units may be affected favorably or adversely by the Section 754 election or the absence thereof, depending on whether the price of the Units is higher or lower than the transferring Unitholder's "share" of the aggregate basis of the Partnership's assets as of the time of the sale or other disposition.

The calculations and adjustments in connection with a Section 754 election will depend, among other things, on the date on which and the price at which a transfer occurs. In order to help reduce the complexity of these calculations and the resulting administrative cost to the Partnerships, the General Partner currently intends to apply the following methods in making the necessary adjustments:

(i) the price paid by a transferee for his Units will be deemed to be the average quoted trading price of the Units during the calendar month in which the transfer occurs, irrespective of the actual price paid; and

(ii) the transfer will be deemed to have occurred at the close of business on the first day of such calendar month, irrespective of when the transfer actually occurs.

The application of these conventions would yield a less favorable tax result, as compared to adjustments based on actual price, to a transferee who paid more than the "convention price" for his Units.

The calculations under Section 754 of the Code are highly complex, and there is little legal authority dealing with the mechanics of the calculations, particularly in the context of large, publicly traded partnerships. No assurance can be given that the adjustments made by the General Partner, as a result of the Section 754 election, will be allowed by the IRS or a court, particularly given the methods to be used for administrative convenience. If such adjustments were disallowed, any increased depreciation deductions allowable to a transferee of Units might be reduced, and any gain allocable to a transferee from the sale of any of the Hotels might be increased.

Termination of the Partnership for Tax Purposes

Section 708 of the Code provides that if 50% or more of the capital and profits interests in a partnership are sold or exchanged within a single 12-month period, the partnership will terminate for tax purposes. In making this determination, however, an interest that changes hands several times during a 12-month period will only be counted once. The Regulations provide that a disposition of a partnership interest by gift, bequest or inheritance is not a sale or exchange for purposes of Section 708(b) of the Code. A termination of the Partnership would cause a simultaneous termination of the Operating Partnership. If the Partnership should terminate for tax purposes, it would be deemed to have distributed its interest in the Operating Partnership to its Partners, whereupon the Operating Partnership would be deemed to have distributed its assets to the General Partner and to the Partners of the Partnership (including the General Partner in its capacity as a Partner of the Partnership). In addition, the Partners of the Partnership would be deemed immediately thereafter to have recontributed such assets to the Partnership, whereupon the Partnership and General Partner (in its capacity as General Partner of the Operating Partnership) would be deemed to have recontributed such assets to the Operating Partnership.

Accordingly, each Partnership (as a deemed new partnership) would have a new basis in its assets equal to the aggregate basis of its partners in their interests in each such Partnership, less any cash deemed distributed to the Partners in connection with the termination. Viewing the Partnerships as one entity, if

the aggregate basis of the Partners in their Units is less than the Operating Partnership's aggregate basis in its assets immediately prior to its termination, the Operating Partnership's basis in its assets after the termination would be reduced correspondingly and might also have to be reallocated to reflect the relative fair market values of those assets at the time of termination. It also appears that the Operating Partnership would begin depreciating its assets anew, using useful lives determined without regard to its holding period prior to the termination.

A Unitholder would not recognize any taxable gain or loss as a result of the deemed pro rata distribution of Partnership assets incident to a termination of the Partnership except to the extent, if any, that the Unitholder's pro rata share of the Partnership's cash (and the reduction, if any, in the Unitholder's pro rata share of the Partnership's indebtedness) at the date of termination exceeded the adjusted tax basis of his Units. In addition, the Partnership's taxable year would terminate, which could cause a bunching of income. Any elections previously made by either Partnership, including a Section 754 election, would no longer apply.

Finally, a termination of the Partnership could cause the Partnership or its assets to become subject to unfavorable statutory or regulatory changes enacted prior to the termination but not previously applicable because of protective transitional rules. In particular, if legislation is passed which treats widely-held or publicly-traded partnerships as corporations, the partnership could lose the benefit of any protective transitional or "grandfather" rules as a result of a technical termination under Section 708.

If the IRS were to assert that the Partnership had suffered a technical termination under Section 708, the Partnership would have the burden of proving that such a termination had not occurred. Satisfying this burden of proof could involve difficult questions of fact.

Prospective Unitholders are advised to consider the possibility and potential adverse tax consequences of a termination under Section 708 of the Code before investing in the Partnership.

Liquidation of the Partnership

The dissolution and liquidation of the Partnership will result in the distribution to Unitholders of record of any assets remaining after payment of, or provision for, the Partnership's debts and liabilities. A Unitholder will recognize gain to the extent that the adjusted basis of his Units is exceeded by the sum of cash he receives and his proportionate share of any reduction in Partnership non-recourse liabilities. Such gain generally will be capital gain, except to the extent of any "unrealized receivables" or "substantially appreciated inventory items." See "Transfer of Units." A Unitholder will recognize a loss upon dissolution of the Partnership only if the liquidating distribution consists solely of cash, or of cash and "unrealized receivables" and "substantially appreciated inventory items," and then only to the extent that the adjusted basis of his Units exceeds the amount of money received and his basis in such "unrealized receivables" and "substantially appreciated inventory items."

Minimum Tax

Noncorporate Unitholders. An alternative minimum tax is imposed on noncorporate taxpayers to the extent that such tax exceeds a taxpayer's regular income tax liability. The alternative minimum tax has been modified by the 1986 Act. The tax base for computing a taxpayer's alternative minimum tax is the taxpayer's "alternative minimum taxable income," which is calculated by adding to the taxpayer's taxable income the amounts of certain items of tax preference, by making certain other adjustments and by subtracting an exemption amount of $20,000, $30,000 or $40,000, depending upon the taxpayer's filing status. Under the 1986 Act, the exemption amount is phased out beginning at $150,000 of alternative minimum taxable income for married taxpayers filing a joint return. The alternative minimum tax is payable only to the extent 21% of the taxpayer's alternative minimum taxable income exceeds the individual's regular income tax. In 1987 and subsequent years, alternative minimum taxable income cannot be offset by net operating losses in excess of 90% of alternative minimum taxable income (computed without regard to such operating losses) nor may alternative minimum tax be offset by foreign tax credits in excess of 90% of the alternative minimum tax liability (computed without regard to such limitations).

for such acquisition or improvement and the incurrence of the debt was reasonably foreseeable at the time of the acquisition or improvement. UBTI generally does not include dividends, interest, gain from the sale of property held for investment and certain types of rents from real property.

It is expected that all of the operating income of the Partnership and a portion of the gain from the sale or exchange of Partnership property generally will constitute UBTI. Further, if a tax-exempt Unitholder sells its Units, a portion of the gain recognized on such sale (including the amount of such gain treated as depreciation recapture or as otherwise allocable to Section 751 items) will be treated as UBTI. See "Transfer of Units."

Partnership Tax Returns and Possible Audit

The Partnership will select the calendar year as its taxable year and will file its information return on the accrual basis. As soon as practical after the close of its taxable year, but not later than 90 days after the close of its taxable year, the Partnership will furnish to each Unitholder copies of (i) the Partnership's Schedule K-1 of Form 1065 indicating the Unitholder's distributive share of tax items and (ii) such additional information as is reasonably necessary to permit the Unitholder to prepare his own federal income tax returns and state and local tax returns in states where the Partnership is organized, is qualified to do business or owns property.

Although a partnership is not required to pay any federal income tax, tax audits are conducted and the tax treatment of partnership items is determined at the partnership level in a unified partnership proceeding.

In audits of partnerships such as the Partnership, the IRS ordinarily will provide notice of the commencement of administrative proceedings and final adjustments only to each Unitholder with an interest in profits of 1% or more. The General Partner will be designated the "tax matters partner" ("TMP") to receive notices on behalf of, and to provide notice to, those Unitholders with interests of less than 1% in the Partnership. The TMP may extend the statutory period of limitations for assessment of adjustments attributable to "partnership items" and enter into a binding settlement on behalf of such Unitholders, except for any group of such Unitholders with an aggregate interest of 5% or more in Partnership profits that elects to form a separate notice group of Unitholders who otherwise notify the IRS that the TMP is not authorized to act on their behalf. If the IRS and the TMP fail to settle an audit proceeding, then the TMP may choose to litigate the matter. In that event, the TMP would select the court in which such litigation would occur (including a court where prepayment of the tax is required). All Unitholders would have the right to participate in such litigation and, regardless of participation, would be bound by the outcome of the litigation. Because Unitholders will be affected by the outcome of any administrative or court proceedings with respect to the Partnerships, the General Partner intends to provide Unitholders with appropriate notice of federal income tax proceedings with respect to the Partnerships.

Unitholders will be required to treat Partnership items on their individual returns in a manner consistent with the treatment of those items on the Partnership's return, unless the Unitholders file with the IRS a statement identifying the inconsistency. Examination of either Partnership's tax returns could result in an adjustment to the tax liability of a Unitholder without any examination of his tax return. In addition, any such audit could result in an audit of a Unitholder's entire tax return and in adjustments to non-Partnership items on that return.

Tax Shelter Registration

An organizer of a partnership is required to register the partnership with the IRS if, among other things, the amount of deductions that are potentially allowable to any partners as of the close of any of the first five years ending after the offering date exceeds twice the partners' investment base in the partnership. Under temporary Regulations published by the IRS, the term "amount of deductions" is interpreted to mean the amount of gross deductions and other tax benefits potentially allowable from an investment. The gross deductions are not to be offset by any gross income to be derived or potentially to be derived from the investment. The General Partner has made the necessary filings to register the Partnership as a

Each Unitholder is required to take into account separately his distributive share of Partnership income, gains, losses, deductions and credits which are items of tax preference. Items of tax preference include, among other things, accelerated depreciation, the excess of the fair market value of stock over the exercise price of an incentive stock option with respect to such stock, tax-exempt interest on certain newly issued private activity bonds, and the untaxed appreciation on charitable contributions of appreciated property. In addition, the 1986 Act's Passive Loss rules will limit the deductibility of Passive Losses for purposes of computing a noncorporate taxpayer's alternative minimum taxable income. See "Federal Taxation of a Partnership and its Partners—Tax Basis; Limitations on Loss Deductions." There are several rules governing the application of the Passive Loss rules for regular tax purposes, on the one hand, and for minimum tax purposes on the other hand. First, the Passive Loss rules are fully effective in 1987 for minimum tax purposes, whereas, for investments before October 22, 1986, they will be phased in over five years for regular tax purposes. Second, solely for minimum tax purposes, the amount of Passive Losses that otherwise would be nondeductible in any taxable year is reduced by the amount, if any, by which the taxpayer is insolvent. Third, in applying the Passive Loss rules, minimum tax rules will apply to the measurement and allowability of all relevant items of income, deduction and credit. The amount of any Passive Losses which is subject to disallowance is determined after computing all preferences and making all other adjustments to income that apply for minimum tax purposes. Thus, the amount of any suspended Passive Losses may differ for minimum and regular tax purposes. Finally, for alternative minimum tax purposes, the deductibility of investment interest is limited to net investment income, with the definition of net investment income conformed to the definition adopted for regular tax purposes by the 1986 Act. See "Limitations on Deductibility of Interest—Excess Investment Interest."

For noncorporate taxpayers with substantial tax preferences, the alternative minimum tax could reduce the after-tax economic benefits of an investment in the Partnership. Each investor should consult his personal tax advisor with respect to the possible effects of such preference items on him.

Corporate Unitholders. For years after 1986, the 1986 Act imposes an alternative minimum tax on corporations, payable to the extent that it exceeds a corporation's regular tax liability. The tax is imposed at the rate of 20%, with a $40,000 exemption amount which is phased out beginning at alternative minimum taxable income of $150,000. Corporations must also add back items of tax preference, including, for 1987, 1988 and 1989, 50% of the excess of a corporation's pre-tax book income over alternative minimum taxable income (determined without regard to this item and the alternative tax net operating loss deduction). For taxable years beginning after December 31, 1989, alternative minimum taxable income is increased by 75% of the amount by which "adjusted current earnings" exceed alternative minimum taxable income (determined without regard to this item and the alternative tax net operating loss deduction). "Adjusted current earnings" include items which are part of the computation of "earnings and profits," as described in the Code, but which are not included in either regular or alternative minimum taxable income. Each corporate investor in the Partnership should consult its tax advisor with respect to the possible effects of the new corporate alternative minimum tax.

Exempt Employee Trusts, Individual Retirement Accounts and Other Tax-Exempt Entities

Certain entities, including trusts formed as part of corporate pension or profit-sharing plans that are qualified under Section 401(a) of the Code, individual retirement accounts ("IRAs"), Keogh plans and certain charitable and other organizations described in Section 501(c) of the Code, generally are exempt from federal income tax. However, such entities are subject to tax on their "unrelated business taxable income" ("UBTI") in excess of $1,000 in any year at the regular trust or, in the case of certain entities, corporate federal income tax rates. UBTI is defined as the gross income derived by a tax-exempt entity from an unrelated trade or business, less the deductions directly connected with that trade or business, subject to certain exceptions. UBTI generally includes a percentage of the gross income (less the same percentage of applicable deductions) derived from property that is subject to "acquisition indebtedness," based upon the ratio of the amount of acquisition indebtedness with respect to such property to the adjusted tax basis of such property. Acquisition indebtedness generally includes the amount of any mortgage or lien to which the property is subject at the time of its acquisition and the amount of any debt incurred after the acquisition or improvement of the property, if the debt would not have been incurred but

the interest rate charged will be 120% of the statutory interest rate. For this purpose, a tax-motivated transaction includes a loss which is disallowed by reason of the at-risk rules.

Backup Withholding

Distributions to Unitholders whose Units are held on their behalf by a broker may constitute "reportable payments" under the federal income tax rules regarding backup withholding. Backup withholding, however, would apply only if the Unitholder (i) failed to furnish his Social Security number or other taxpayer identification number to the person subject to the backup withholding requirement (e.g., the broker) or (ii) furnished an incorrect Social Security number or taxpayer identification number. If backup withholding were applicable to a Unitholder, the person subject to the backup withholding requirement would be required to withhold 20% of each distribution to such Unitholder and to pay such amount to the IRS on behalf of the Unitholder.

Taxation of Foreign Unitholders

If the Partnership is deemed to be engaged in a trade or business, Unitholders who are neither citizens nor residents of the United States ("Foreign Investors") will be subject to U.S. income taxation and be required to file U.S. federal income tax returns. In such case, Section 1446 of the Code provides that Foreign Investors will generally be subject to U.S. withholding taxes at the rate of 20% on any amount distributed to them. Alternatively, if the Partnership is not deemed to be engaged in a U.S. trade or business, Foreign Investors may be subject to U.S. withholding taxes at the rate of 30% (or any lower rate available under an applicable tax treaty) on their distributive share of Partnership gross income. In that event, the amount of tax so withheld could exceed the amount of cash available for distribution to Foreign Investors and may substantially reduce the amount of cash available for distribution to all Unitholders, domestic or foreign. In this connection, Foreign Investors should note the availability of an election under Section 871(d) of the Code under which nonresident alien individuals who derive income from real property held for the production of income in the United States may elect to treat such income as effectively connected with the conduct of a U.S. trade or business even though it would otherwise not be so treated. If such an election is made by a Foreign Investor, he will be subject to U.S. withholding tax at the rate of 20% on any amount distributed to him. A Foreign Investor claiming, or electing to be treated as, being engaged in the conduct of a U.S. trade or business must complete and file in duplicate an IRS Form 4224. This form should be filed by each such Foreign Investor at the time he acquires his Units and annually thereafter. Although the issue is not free from doubt, the Partnerships' activities should constitute a U.S. trade or business for these purposes, and such activities should be deemed to be conducted through a permanent establishment in the United States.

Foreign Investors who own more than a five percent interest in the Partnership also will be subject to U.S. income taxation on the sale of their Units, whether or not the Partnership is deemed to be engaged in a U.S. trade or business. Any person who acquires Units from such a Foreign Investor must withhold a tax of 10 percent from the amount realized by such Foreign Investor and complete and file Forms 8288 and 8288-A. In addition, if the Partnership disposes of property, Foreign Investors (regardless of their percentage ownership) are subject to U.S. income taxation on their distributive share of any gain recognized upon such dispositions by the Partnership whether or not the Partnership is deemed to be engaged in a U.S. trade or business. Section 1445 of the Code generally requires the Partnership to withhold 34% of the gain realized in such a disposition, to the extent such gain is allocable to a Foreign Investor. As previously indicated, however, the Partnership is also required to withhold 20% of any distribution to a Foreign Investor pursuant to Section 1446 of the Code. While the IRS has express regulatory authority to adjust the 20% withholding requirement for the amount withheld under Section 1445, no such coordinating regulations have been issued. Foreign Investors are therefore urged to consult their own U.S. tax advisors as to the tax consequences to them, including possible applicability of any treaty provisions, withholding taxes and reporting requirements, of any investment in the Partnership. Prospective Foreign Investors should also be aware that they may be subject to U.S. federal estate tax and gift tax if they invest in the Partnership.

tax shelter, but the Partnership has not yet received a tax shelter registration number. **ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED, OR APPROVED BY THE SERVICE. EACH UNITHOLDER MUST INCLUDE THE PARTNERSHIP'S REGISTRATION NUMBER ON FORM 8271 ATTACHED TO HIS FEDERAL INCOME TAX RETURN FOR ANY YEAR IN WHICH HE CLAIMED ANY INCOME, GAIN, LOSS, DEDUCTION OR CREDIT WITH RESPECT TO THE PARTNERSHIP.** In addition, a person who transfers an interest in a tax shelter must furnish a tax shelter registration notice to the transferee at the time of the transfer. Such a transferor must also furnish the registration number to the transferee either at the time of the transfer or, if later, within 20 days after the transferor receives the registration number. The temporary Regulations do not contemplate the sale of partnership interests under circumstances in which the specific transferee cannot be identified. Within 20 days after the Partnership receives its registration number, it will furnish such number to all of the initial purchasers of Units and to all holders of Units at that time. In addition, the Partnership will include the registration number in the Schedule K-1's sent to each Unitholder. Any investor who fails, without reasonable cause, to include the registration number on his return, or who fails to furnish in a timely fashion a tax shelter registration notice or the registration number to a transferee, will be subject to a penalty for each such failure of $250 in the former case and $100 in the latter case.

Penalty Applicable to a Substantial Understatement of Tax

In addition to the interest normally payable on underpayments of tax, for tax returns due after December 31, 1986, the Code provides for a penalty in the amount of 25% of any underpayment of tax attributable to a "substantial understatement of income tax." A substantial understatement of income tax is the amount of the understatement of tax on a return for a particular taxable year that exceeds the greater of $5,000 or 10% of the tax required to be shown on the taxpayer's return for the year. There are exceptions to the 25% penalty based on the merit of the taxpayer's position, the disclosure of relevant facts on the return or waiver of the penalty by the IRS pursuant to Regulations to be prescribed.

Except in the case of an item attributable to a tax shelter, as a general rule, the penalty will not be imposed with respect to underpayments attributable to items for which (i) there is or was "substantial authority" for the tax treatment afforded such items by the taxpayer, or (ii) the relevant facts affecting the treatment of such items are adequately disclosed in the taxpayer's return. The IRS has adopted Regulations that establish a stringent standard in determining whether substantial authority exists. Under the Regulations, in order to satisfy the standard, the taxpayer must have stronger support for his position than a mere reasonable basis but need not show that his position was believed to be more likely than not to prevail in court. In the case of a tax shelter item, the 25% penalty cannot be avoided (in the absence of an IRS waiver) unless the taxpayer establishes that, in addition to having substantial authority for his position, he reasonably believed that the treatment claimed was more likely than not the proper treatment of the item. For this purpose, a tax shelter item is one arising from a partnership or other entity, plan or arrangement the principal purpose of which is the avoidance or evasion of federal income tax. The Partnership should not constitute a tax shelter for purposes of the 25% penalty since its principal purpose is not the avoidance or evasion of federal income tax; however, a particular item of Partnership income, gain, loss, deduction or credit could still constitute a tax-shelter item if it were deemed to arise from a plan or arrangement the principal purpose of which was tax avoidance.

There can be no assurance that a Unitholder will not have a substantial understatement of income tax as a result of the treatment of items of income, gain, loss, deduction and credit resulting from his investment in the Partnership or that the IRS will not contend that there is not substantial authority for the treatment on the Unitholder's return of certain items of income, gain, loss, deduction and credit. If the IRS should challenge the treatment by the Partnership for tax purposes of the various items of income, loss, gain, deduction and credit, and if a Unitholder should fail to meet the substantial authority test, a Unitholder could incur a penalty for a substantial underpayment of taxes resulting from his investment in the Partnership.

The Code requires that interest be charged on the 25% penalty from the due date of the return (including extensions) on which the understatement arose until the date of the payment of the penalty. In addition, if the substantial underpayment penalty is imposed as a result of a "tax-motivated transaction,"

The Final Regulations make an exception with respect to interests in investment partnerships which are (i) freely transferable, (ii) widely held and (iii) registered with the Commission pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or sold to the plan in a public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended (and subsequently registered under the Exchange Act within the time allowed by SEC Regulations).

Under the Regulations, the determination whether the Units will be "freely transferable" (as described in (i)) is to be made on the basis of all relevant facts and circumstances. No assurance can be given that the Units will be found to be "freely transferable." Although the Partnership presently believes that the Units will satisfy the requirements of (ii) and (iii), no assurance can be given in this regard.

The Regulations also make exceptions for interests in investment partnerships which are "real estate operating companies." An entity is a "real estate operating company" if on certain dates at least 50 percent of its assets (valued at cost and subject to certain exclusions) are invested in real estate which is managed or developed and with respect to which such entity has the right substantially to participate directly in the management or development activities and during the relevant contemporaneous period such entity in the ordinary couse of its business is engaged directly in real estate management or development activities. No assurance can be given that the Partnership will be a "real estate operating company."

Lastly, the Regulations make an exception for investment partnerships in which equity participation by "benefit plan investors" is not significant. In general, this condition is satisfied on a date if as of that date less than 25 percent of the value of any class of equity interests in the entity is held by "benefit plan investors" (defined in the Regulation to include "employee benefit plans" as defined in Section 3(3) of ERISA and Plans described in Section 4975(e)(1) of the Code). No assurance can be given that this condition will be satisfied.

Under an extended transitional rule, the regulations will not take effect until March 13, 1987, and, except as a defense, would not apply to an investment partnership in existence on March 13, 1987 if no employee benefit plan acquired an interest in such investment partnership from an issuer or underwriter at any time after such date, except pursuant to a binding contract, in effect on such date, with an issuer or underwriter to acquire such interest. The Partnership was formed on January 16, 1987.

Employee benefit plans subject to ERISA and to the Code for purposes of the Regulations include, but are not limited to, qualified pension, profit sharing and stock bonus plans, Keogh plans, Simplified Employee Pension plans and Individual Retirement Accounts.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Accordingly, prospective purchasers of Units are urged to consult their own advisors with respect to the considerations associated with the acquisition and ownership of Units under ERISA and the Code.

Importance of Obtaining Professional Advice

THE FOREGOING ANALYSIS IS NOT INTENDED AS A SUBSTITUTE FOR CAREFUL TAX PLANNING. THE TAX MATTERS RELATING TO THE PARTNERSHIP AND ITS PLANNED TRANSACTIONS ARE COMPLEX AND ARE SUBJECT TO VARYING INTERPRETATIONS. MOREOVER, THE EFFECT OF EXISTING INCOME TAX LAWS AND POSSIBLE CHANGES IN SUCH LAWS WILL VARY WITH THE PARTICULAR CIRCUMSTANCES OF EACH INVESTOR. ACCORDINGLY, INVESTORS ARE ADVISED TO CONSULT THEIR TAX ADVISORS FOR A COMPREHENSIVE EXPLANATION OF SUCH PROVISIONS AND THEIR APPLICATION TO THE TRANSACTIONS DESCRIBED HEREIN AND TO THE INVESTOR'S PARTICULAR CIRCUMSTANCES.

State and Local Income Taxes

Prospective investors should also consider the state and local tax consequences of an investment in the Partnership. A Unitholder's distributive share of the Partnership's taxable income or loss generally will be required to be included in determining his reportable income for state or local tax purposes. Unitholders will generally be required to file tax returns in those states in which the Operating Partnership's properties are located as well as returns in their state of domicile. Certain tax benefits which are available to Unitholders for federal income tax purposes may not be available to Unitholders for state and local tax purposes, and in this regard, investors are urged to consult their own tax advisors. The General Partner intends to supply Unitholders with information regarding their income tax obligations, if any, in various jurisdictions in which the Operating Partnership operates. Investors are urged to consult with their own tax advisors regarding requirements of state and local tax laws and any applicable tax rates.

EMPLOYEE BENEFIT PLANS AND INDIVIDUAL RETIREMENT ACCOUNTS

Persons investing on behalf of employee benefits plans subject to the Employee Retirement Income Security Act of 1974 ("ERISA") or the Code are required to determine whether such investments will satisfy the prudence, diversification, prohibited transaction and other standards set forth in ERISA or the Code, as the case may be. Any such person must also evaluate the risk (as discussed more fully below) that unintended ERISA or Code prohibited transaction questions of fiduciary duty delegation questions may arise if the underlying assets of the Partnership are treated under ERISA or the Code as assets of the employee benefit plans that purchase Units.

This "plan asset" issue was addressed initially by the U.S. Department of Labor ("DOL") in 1975 by the adoption of DOL Interpretative Bulletin 75-2. DOL at that time adopted the view that, as a general rule, a purchase by an employee benefit plan of limited partnership interests did not, solely by reason of such purchase, cause the underlying assets of the limited partnership to be considered assets of the plan.

Under Final Regulations issued by the U.S. Department of Labor ("DOL") on November 13, 1986, the assets of investment partnerships in which employee benefit plans make equity investments will be treated as assets of such plans, unless such investments are within one of the regulations' exemptions. Such treatment would, in general, make the Partnership an inappropriate investment for employee benefit plans. If an undivided portion of the underlying assets of the Partnership is treated as an asset of an employee benefit plan that purchases Units, each person who is a fiduciary or "party in interest" under ERISA or a "disqualified person" under the Code with respect to such plan will be subject to the prohibited transaction and other fiduciary rules under ERISA and the Code in dealing with the assets of the Partnership. Such fiduciaries also might be subject to co-fiduciary liability under ERISA for any breach of fiduciary duty by the General Partners, their affiliates and other persons directly or indirectly controlling the assets of the Partnership, each of whom might become a fiduciary with respect to such plan if the underlying assets of the Partnership are treated as the plan assets of such plan.

(ii) sign, execute, swear to and acknowledge all ballots, consents, approvals, waivers, certificates and other instruments appropriate or necessary, in the sole discretion of the General Partner or the Liquidator, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action which is made or given by the Partners hereunder or is consistent with the terms of this Agreement and/or appropriate or necessary, in the sole discretion of the General Partner or the Liquidator, to effectuate the terms or intent of this Agreement; provided, however, that when required by Section 15.3 or any other provision of this Agreement which establishes a percentage of the Limited Partners required to take any action, the General Partner or the Liquidator may exercise the power of attorney made in this subsection (ii) only after the necessary vote, consent or approval by a Majority Interest or other required percentage.

Nothing herein contained shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article XV or as may be otherwise expressly provided for in this Agreement.

(b) The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, and it shall survive and not be affected by the subsequent death, incompetency, disability, incapacity, dissolution, bankruptcy or termination of any Limited Partner or Assignee and the transfer of all or any portion of his Partnership Interest and shall extend to such Limited Partner's or Assignee's heirs, successors, assigns and personal representatives. Each such Limited Partner or Assignee hereby agrees to be bound by any representations made by the General Partner or the Liquidator, acting in good faith pursuant to such power of attorney; and each such Limited Partner or Assignee hereby waives any and all defenses which may be available to contest, negate or disaffirm the action of the General Partner or the Liquidator, taken in good faith under such power of attorney.

Each Limited Partner or Assignee shall execute and deliver to the General Partner or the Liquidator, within 15 days after receipt of the General Partner's or the Liquidator's request therefor, such further designations, powers of attorney and other instruments as the General Partner or the Liquidator deems necessary to effectuate this Agreement and the purposes of the Partnership.

1.5 *Term.* The Partnership shall continue in existence until the close of Partnership business on December 31, 2062, or until the earlier termination of the Partnership in accordance with the provisions of Article XIV.

1.6 *Organizational Limited Partner.* In order to create the Partnership under the Delaware Act, the General Partner has made a contribution to the capital of the Partnership in the amount of $10 and has accepted a contribution to the capital of the Partnership in the amount of $990 from the Organizational Limited Partner for an interest in the Partnership, and the Organizational Limited Partner has been admitted to the Partnership as a Limited Partner. As of the Commencement Date and the admission to the Partnership of the Initial Limited Partners, the interest in the Partnership of the Organizational Limited Partner shall be terminated, the amounts contributed by him and by the General Partner to the Partnership shall be refunded and the Organizational Limited Partner shall withdraw as a Limited Partner. Ninety-nine percent of any interest or other profit which may have resulted from the investment or other use of such amounts paid by the Organizational Limited Partner to the Partnership shall be allocated and distributed to the Organizational Limited Partner and the balance thereof shall be allocated and distributed to the General Partner. The interest in the Partnership of the Organizational Limited Partner is not transferable except by operation of law.

ARTICLE II

DEFINITIONS

The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

"*Affiliate*" means any Person that directly or indirectly controls, is controlled by, or is under common control with the Person in question. As used in the definition of "Affiliate," the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF RED LION INNS LIMITED PARTNERSHIP

This AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP is entered into by and among Red Lion Properties, Inc., a Delaware corporation, as the General Partner, and H. Raymond Bingham as the Organizational Limited Partner, together with the Persons who become General Partners and Limited Partners of the Partnership, as provided herein. The Partnership was formed by the filing with the Secretary of State of the State of Delaware of a certificate of limited partnership on January 16, 1987. The General Partner and the Organizational Limited Partner now desire to amend and restate the limited partnership agreement of the Partnership in its entirety as follows.

ARTICLE I

ORGANIZATIONAL MATTERS

1.1 *Formation.* The General Partner and the Organizational Limited Partner hereby form and continue the Partnership as a limited partnership pursuant to the provisions of the Delaware Act. Except as expressly provided herein to the contrary, the rights and obligations of the Partners and the administration and termination of the Partnership shall be governed by the Delaware Act. The Partnership Interest of any Partner shall be personal property for all purposes.

1.2 *Name.* The name of the Partnership shall be "Red Lion Inns Limited Partnership". The Partnership's business may be conducted under the name of the Partnership or any other name or names deemed advisable by the General Partner, including the name of any General Partner or any Affiliate thereof. The words "Limited Partnership", "Ltd." or similar words or letters shall be included in the Partnership's name where necessary for the purposes of complying with the laws of any jurisdiction that so requires. The General Partner in its sole discretion may change the name of the Partnership at any time and from time to time.

1.3 *Registered Office; Principal Office.* The address of the registered office of the Partnership in the State of Delaware shall be Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office shall be The Corporation Trust Company. The principal office of the Partnership shall be 4001 Main Street, Vancouver, Washington 98663, or such other place as the General Partner may from time to time designate to the Partners. The Partnership may maintain offices at such other place or places as the General Partner deems advisable.

1.4 *Power of Attorney.*

(a) Each Limited Partner and each Assignee hereby constitutes and appoints the General Partner and the Liquidator (and any successor to either thereof by merger, assignment, election or otherwise) and each of their officers with full power of substitution as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead, to:

(i) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (A) this Agreement, all certificates and other instruments and all amendments thereof which the General Partner or the Liquidator deems reasonable and appropriate or necessary to form, qualify, or continue the formation or qualification of, the Partnership as a limited partnership (or a partnership in which the Limited Partners have limited liability) in the State of Delaware and in all other jurisdictions in which the Partnership may conduct business or own property; (B) all instruments which the General Partner or the Liquidator deems appropriate or necessary to reflect any amendment, change, modification or restatement of this Agreement in accordance with its terms; (C) all conveyances and other instruments or documents which the General Partner or the Liquidator deems appropriate or necessary to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement, including a certificate of cancellation; and (D) all instruments relating to the admission, withdrawal or substitution of any Partner pursuant to Article XII or Article XIII; and

"*General Partner Interest Deductions*" means any interest deductions allowable to the Partnership for federal income tax purposes in connection with the revolving credit facility described in Section 6.8(a).

"*Hotels*" means the real property and improvements thereon acquired by the Partnership pursuant to the Purchase and Sale Agreement, and "*Hotel*" means any one of the Hotels.

"*Initial Limited Partner*" means each Underwriter purchasing Units pursuant to the Underwriting Agreement and shown as such on the books and records of the Partnership.

"*Initial Offering*" means the initial offering of Units to the public.

"*Initial Unit Price*" means $

"*Limited Partner*" means any Person who is a limited partner of the Partnership other than the Organizational Limited Partner (i.e., each Initial Limited Partner, each Substituted Limited Partner and any Departing Partner upon the conversion of its Partnership Interest or its interest in the Operating Partnership into Units pursuant to Section 13.2), and shown as a Limited Partner on the books and records of the Partnership and also means each initial transferee of an Initial Limited Partner.

"*Liquidation*" means the Sale of the Partnership's interest in the Operating Partnership or the Sale of one or more Hotels that results in a liquidation of the Partnership.

"*Liquidator*" means the Person (other than the General Partner) approved pursuant to Section 14.3 who performs the functions described therein.

"*Majority Interest*" means the owners of more than 50% of the aggregate Percentage Interests of all Limited Partners.

"*Management Agreement*" means the management agreement between the Operating Partnership and Red Lion providing for the management of the Hotels.

"*NASDAQ*" means the National Association of Securities Dealers Au[illegible] Quotation System.

"*National Securities Exchange*" means an exchange registered with the Securities and Exchange Commission under Section 6(a) of the Exchange Act.

"*Net Agreed Value*" means, in the case of any property distributed to a Partner by the Partnership pursuant to Sections 14.3 and 14.4, the Partnership's Carrying Value of such property at the time such property is distributed reduced by any indebtedness either assumed by such Partner upon such distribution or to which such property is subject at the time of distribution.

"*Net Invested Capital*" means, as of any date of determination, the Limited Partners' Capital Contributions less all distributions made prior to such date pursuant to Section 5.3(b).

"*Operating Partnership*" means Red Lion Inns Operating L.P., the limited partnership established by the Operating Partnership Agreement.

"*Operating Partnership Agreement*" means the limited partnership agreement pursuant to which the Operating Partnership is organized, as it may be amended or restated from time to time.

"*Opinion of Counsel*" means a written opinion of counsel (who may be regular counsel to the Partnership or the General Partner) acceptable to the General Partner.

"*Organizational Limited Partner*" means H. Raymond Bingham, in his capacity as the organizational limited partner pursuant to this Agreement.

"*Outstanding*" means the number of Units issued by the Partnership and shown on the Partnership's books and records to be outstanding, less any Units held by the Partnership or the Operating Partnership.

"*Partner*" means a General Partner or a Limited Partner.

"*Partnership*" means the limited partnership organized pursuant to this Agreement.

"*Partnership Interest*" means the interest of a Partner in the Partnership.

"*Percentage Interest*" means (a) as to the General Partner, 1%, and (b) as to any Limited Partner or Assignee, the product of (i) 99% multiplied by (ii) the number of such Partner's or Assignee's Units divided by the total of all Units Outstanding as of the date of such determination.

"*Agreement*" means this Amended and Restated Agreement of Limited Partnership, as it may be amended, supplemented or restated from time to time.

"*Assignee*" means a Person to whom one or more Units have been transferred in a manner permitted under this Agreement and who has delivered a Transfer Application as required by this Agreement, but who has not become a Substituted Limited Partner.

"*Business Day*" means Monday through Friday of each week, except that a legal holiday recognized as such by the Government of the United States or the states of Washington or New York shall not be regarded as a Business Day.

"*Capital Return Date*" has the meaning specified in Section 5.3(a).

"*Capital Contribution*" means any cash and cash equivalents which a Partner contributes to the Partnership pursuant to Section 4.1, 4.2, 6.5(c) or 13.2(c).

"*Capital Account*" means the capital account maintained for a Partner pursuant to Section 4.5.

"*Cash Flow Available for Distribution*" means with respect to a fiscal period, all cash receipts and funds received by the Partnership other than (1) Capital Contributions to the Partnership, (2) the proceeds of any borrowing by the Partnership or the Operating Partnership, (3) any amounts distributed to the Partnership as a result of any Sale or Refinancing of a Hotel, (4) working capital or other reserves of the Partnership, or (5) the proceeds of the liquidation of the Operating Partnership or the Partnership, less the sum of the following (except to the extent paid from the aforesaid funds or from funds withdrawn from reserves therefor):

(i) all sums paid to lenders including, but not limited to, all principal and interest payments on mortgage loans and other indebtedness of the Partnerships (including all principal and interest payments on any loans by the General Partner or its Affiliates to the Partnerships) and, to the extent not associated with a Sale or Refinancing, origination fees and commitment fees;

(ii) all cash expenditures made incident to the operation of the Partnerships' business, including, without limitation, those expenses of the General Partner and its Affiliates reimbursed by the Partnerships pursuant to the Partnership Agreements and all fees (including fees paid pursuant to the Management Agreement) and expense reimbursements payable to Red Lion;

(iii) all cash contributed or advanced, whether for capital improvements to, or renovation of, the Hotels; and

(iv) such reserves as the General Partner in its sole discretion deems to be reasonably required for the proper operation of the Partnership's business.

"*Certificate*" means a certificate issued by the Partnership, substantially in the form of Annex I to this Agreement, which is made a part hereof for all purposes, evidencing ownership of one or more Units.

"*Certificate of Limited Partnership*" means the Certificate of Limited Partnership filed with the Secretary of State of the State of Delaware pursuant to Section 6.2, as it may be amended and/or restated from time to time.

"*Code*" means the Internal Revenue Code of 1986, as amended and in effect from time to time, and applicable regulations thereunder. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of future law.

"*Commencement Date*" means the first date on which any Units are sold to the Initial Limited Partners pursuant to the Underwriting Agreement.

"*Delaware Act*" means the Delaware Revised Uniform Limited Partnership Act, 6 *Del. C.* §17-101, *et seq.*, as it may be amended from time to time, and any successor to such Act.

"*Departing Partner*" means a former General Partner, as of the effective date of any withdrawal or removal of such former General Partner pursuant to Section 13.1.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and any successor to such statute.

"*General Partner*" means Red Lion Properties, Inc. or any of its successors in its capacity as general partner of the Partnership.

"*Red Lion*" means RL Acquisition Company, a California limited partnership.

"*Redeemable Units*" means any Units for which a notice of redemption has been given, and not withdrawn, pursuant to Section 7.6.

"*Refinancing*" means any borrowing incurred or made to recapitalize the Partnership's or the Operating Partnership's equity investment in, or to refinance any loan used to finance the purchase of or secured by, any Hotel.

"*Sale*" means the sale, exchange, involuntary conversion (other than a casualty followed by reconstruction), condemnation or other disposition of property by the Partnership or the Operating Partnership, except for dispositions of inventory items and personal property in the ordinary course of business in connection with the replacement of such property.

"*Sale or Refinancing Proceeds*" means the net cash proceeds received by the Partnership or distributed to the Partnership from the Operating Partnership from or as a result of any Sale or Refinancing of any Hotel or the liquidation of the Operating Partnership or the Sale of the limited partnership interest in the Operating Partnership in connection with a liquidation of the Partnership after deducting (i) any expenses incurred in connection therewith (ii) any amounts applied by the General Partner in its sole and absolute discretion toward the payment of any indebtedness (including indebtedness to the General Partner) and other obligations of the Partnership or the Operating Partnership, including payments of principal and interest on mortgages, (iii) all amounts then payable pursuant to the Management Agreement, (iv) the payment of any other expenses and (v) the establishment of any reserves deemed necessary by the General Partner in its sole and absolute discretion. If the proceeds of any Sale or Refinancing are paid in more than one installment, each such installment shall be treated as a separate Sale or Refinancing for purposes of this definition.

"*Securities Act*" means the Securities Act of 1933, as amended, and any successor to such statute.

"*Substituted Limited Partner*" means a Person who is admitted as a Limited Partner to the Partnership pursuant to Section 12.2 in place of and with all the rights of a Limited Partner and who is shown as a Limited Partner on the books and records of the Partnership.

"*Taxable Income*" or "*Taxable Loss*" means the taxable income or taxable loss of the Partnership (including the Partnership's share of any taxable income or loss from the Operating Partnership) under the Code, including, without limitation, each item of Partnership income, gain, loss, deduction or credit (including any credit recapture), as determined in accordance with such methods of accounting as are permitted by the Code and selected by the General Partner. Taxable Income and Taxable Loss shall be computed by excluding therefrom General Partner Interest Deductions and any gross income allocated pursuant to Section 5.1(h).

"*Transfer Agent*" means any bank, trust company or other Person appointed by the Partnership to act as transfer agent for the Units.

"*Transfer Application*" has the meaning specified in Section 10.2(b).

"*Underwriter*" means a Person named as an underwriter in the Underwriting Agreement who purchases Units pursuant thereto.

"*Underwriting Agreement*" means the Purchase Agreement dated , 1987 among Red Lion, the Partnerships and the Underwriters providing for the purchase of Units by such Underwriters.

"*Unit*" means a Partnership Interest of a Limited Partner or Assignee in the Partnership representing such fractional part of the Partnership Interests of all the Limited Partners and Assignees as shall be determined by the General Partner pursuant to Section 4.3 in connection with the issuance of Partnership Interests to the Initial Limited Partners; provided that each Unit at any time outstanding shall represent the same fractional part of the Partnership Interests of all Limited Partners and Assignees as each other Unit.

"*Unit Price*" of a Unit means, as of any date of determination, (a) if the Units are listed or admitted to trading on one or more National Securities Exchanges, the average of the last reported sale prices per Unit regular way or, in case no such reported sale has taken place on any such day, the average of the last reported bid and asked prices per Unit regular way, in either case on the principal National Securities Exchange on which the Units are listed or admitted to trading, for the four trading days immediately

"*Person*" means an individual or a corporation, partnership, trust, unincorporated organization, association or other entity.

"*Priority Distribution*" means, for each twelve-month period set forth below (the first of which periods shall begin on the first day of the first full calendar month following the Commencement Date), a dollar amount which, when multiplied by the number of Units Outstanding, bears the same relationship to the weighted average balance of the Limited Partners' Net Invested Capital for such period as do the amounts set forth below (multiplied by the number of Units Outstanding) to the amounts contributed by the Limited Partners pursuant to Section 4.2:

Twelve-Month Period	
First	$2.00
Second	$2.05
Third	$2.10
Fourth	$2.15
Fifth and thereafter	$2.20

"*Proportionate Share*" means, with respect to any Limited Partner or Assignee, the number of such Person's Units divided by the total of all Units Outstanding as of the date of such determination.

"*Purchase and Sale Agreement*" means that agreement among Red Lion, the Partnership and the Operating Partnership wherein, among other things, Red Lion sells the Hotels to the Operating Partnership for cash.

"*Purchase Date*" means the date determined by the General Partner as the date for purchase of all Outstanding Units (other than Units owned by the General Partner and its Affiliates) pursuant to Section 17.1(b).

"*Purchase Funds*" means an amount in cash equal to the aggregate Purchase Price of all Units subject to purchase on the Purchase Date in accordance with Section 17.1.

"*Purchase Price*" means an amount per Unit equal to the greater of (a) the highest cash price paid by the General Partner or any Affiliate thereof for any Unit purchased during the 90 days immediately prior to the date on which the notice described in Section 17.1(b) is first mailed, if any such purchase occurred during such period, or (b)(i) if the Units are listed or admitted to trading on one or more National Securities Exchanges, the average of the last reported sale prices per Unit regular way or, in case no such reported sale has taken place on any such day, the average of the last reported bid and asked prices per Unit regular way, in either case on the principal National Securities Exchange on which the Units are listed or admitted to trading, for the 30 trading days immediately preceding the date of the mailing of such notice, (ii) if the Units are not listed or admitted to trading on a National Securities Exchange but are quoted by NASDAQ, the average of the closing bid per Unit for the 30 trading days immediately preceding the date of the mailing of such notice, as furnished by the National Quotation Bureau Incorporated or such other nationally recognized quotation service as may be selected by the General Partner for such purpose if said Bureau is not at the time furnishing quotations, or (iii) if the Units are not listed for trading on a National Securities Exchange or quoted by NASDAQ, an amount equal to the fair market value of a Unit as of the date of the mailing of such notice, as determined by the General Partner using any reasonable method of valuation.

"*Recapture Income*" means any gain recognized by the Partnership upon the disposition of any property or asset of the Partnership that does not constitute capital gain for federal income tax purposes because such gain represents the recapture of deductions previously taken with respect to such property or assets.

"*Record Date*" means the date established by the General Partner for determining (a) the identity of Limited Partners entitled to notice of or to vote at any meeting of Limited Partners or entitled to vote by ballot or give approval of Partnership action in writing without a meeting or entitled to exercise rights in respect of any other lawful action of Limited Partners, or (b) the identity of Record Holders entitled to receive any report or distribution.

"*Record Holder*" means the Limited Partner or Assignee in whose name the Unit is registered on the books of a Transfer Agent, as of the close of business on a particular Business Day.

(i) the amount of all Capital Contributions made by such Partner to the Partnership pursuant to this Agreement and (ii) all items of Partnership income and gain (including income and gain exempt from tax) computed in accordance with Section 4.5(b) and allocated to such Partner pursuant to Section 5.1 and decreased by (iii) the amount of all actual and deemed distributions of cash or property made to such Partner pursuant to this Agreement and (iv) all items of Partnership deduction and loss computed in accordance with Section 4.5(b) and allocated to such Partner pursuant to Section 5.1.

(b) For purposes of computing the amount of any item of income, gain, deduction or loss to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of any such item shall be the same as its determination, recognition and classification for federal income tax purposes (including any method of depreciation, cost recovery or amortization used for this purpose); provided that:

(i) Solely for purposes of the application of the provisions of this Agreement, the Partnership shall be treated as owning directly its proportionate share (as determined by the General Partner based upon the provisions of the Operating Partnership Agreement) of all property owned by the Operating Partnership.

(ii) All fees and other expenses incurred by the Partnership to promote the sale of (or to sell) a Partnership Interest that can neither be deducted nor amortized under Section 709 of the Code shall, for purposes of Capital Account maintenance, be treated as an item of deduction at the time such fees and other expenses are incurred and shall be allocated among the Partners pursuant to Section 5.1.

(iii) If in any taxable year the Partnership has in effect an election under Section 754 of the Code, capital accounts shall be adjusted in accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(m).

4.6 *Interest.* No interest shall be paid by the Partnership on Capital Contributions or on balances in Partners' Capital Accounts.

4.7 *No Withdrawal.* A Partner shall not be entitled to withdraw any part of his Capital Contribution or his Capital Account or to receive any distribution from the Partnership, except as provided in Sections 1.6, 5.2 and 5.3, and Articles XIII and XIV.

4.8 *Loans From Partners.* Loans by a Partner to the Partnership shall not be considered Capital Contributions. If any Partner or Assignee shall advance funds to the Partnership in excess of the amounts required hereunder to be contributed by it to the capital of the Partnership, the making of such advances shall not result in any increase in the amount of the Capital Account of such Partner or Assignee. The amounts of any such advances shall be a debt of the Partnership to such Partner or Assignee and shall be payable or collectible only out of the Partnership assets in accordance with the terms and conditions upon which such advances are made.

4.9 *No Fractional Units.* No fractional Units shall be issued by the Partnership.

4.10 *Splits and Combinations.*

(a) The General Partner may make a distribution in Units to all Record Holders or may effect a subdivision or combination of Units, but in each case only on a pro rata basis so that, after such distribution, subdivision or combination, each Partner and Assignee shall, subject to Section 4.10(d), have the same Percentage Interest in the Partnership as before such distribution, subdivision or combination.

(b) Whenever such a distribution, subdivision or combination is declared, the General Partner shall select a Record Date as of which the distribution, subdivision or combination shall be effective and shall send notice of the distribution, subdivision or combination at least 20 days prior to such Record Date to each Record Holder as of the date ten days prior to the date of such notice. The General Partner also may cause a firm of independent public accountants selected by it to calculate the number of Units to be held by each Record Holder after giving effect to such distribution, subdivision or combination. The General Partner shall be entitled to rely on any certificate provided by such firm as conclusive evidence of the correctness of such a calculation.

(c) Promptly following any such distribution, subdivision or combination, the General Partner may cause Certificates to be issued to the Record Holders of Units as of the applicable Record Date representing the new number of Units held by such Record Holder, or the General Partner may adopt such

preceding the date of determination. (b) if the Units are not listed or admitted to trading on a National Securities Exchange but are quoted by NASDAQ, the average of the closing bid per Unit for the four trading days immediately preceding such date of determination, as furnished by the National Quotation Bureau Incorporated or such other nationally recognized quotation service as may be selected by the General Partner for such purpose if said Bureau is not at the time furnishing quotations, or (c) if the Units are not listed for trading on a National Securities Exchange or quoted by NASDAQ, an amount equal to the fair market value of a Unit as of such date of determination, as determined by the General Partner using any reasonable method of valuation.

ARTICLE III

PURPOSE

The purpose and business of the Partnership shall be any business which may lawfully be conducted by a limited partnership organized pursuant to the Delaware Act, including primarily, but without limitation, the acquisition, management, operation and disposition of the Hotels; the operation of a chain of lodging facilities; the carrying on of any business relating thereto or arising therefrom; the entering into of any partnership, joint venture or other similar arrangement to engage in any of the foregoing or the ownership of interests in any entity engaged in any of the foregoing, including the ownership of a limited partner's interest in the Operating Partnership; and anything incidental or necessary to the foregoing.

ARTICLE IV

CAPITAL CONTRIBUTIONS

4.1 *General Partner.* Immediately prior to the earlier of (i) the first date on which its contribution could be required pursuant to Section 14.3(b) or (ii) the time it becomes a Departing Partner, the General Partner shall contribute to the Partnership cash and cash equivalents in an amount equal to 1.01% of the total Capital Contributions to the Partnership made pursuant to Section 4.2.

4.2 *Initial Limited Partners.* The Initial Limited Partners shall be issued Units by the Partnership and shall be admitted to the Partnership as Limited Partners in exchange for their Capital Contributions, as follows:

(a) On the Commencement Date, each Underwriter shall contribute to the Partnership in cash the amount of the Initial Unit Price multiplied by the number of Units specified in the Underwriting Agreement to be purchased by such Underwriter on the "Closing Date," as such term is used in the Underwriting Agreement.

(b) If the Underwriters exercise the over-allotment option granted in the Underwriting Agreement to purchase additional Units, each Underwriter shall contribute to the Partnership in cash on the "Date of Second Delivery" (as such term is used in the Underwriting Agreement) the amount of the Initial Unit Price multiplied by the number of Units purchased by such Underwriter pursuant to the exercise of such option.

4.3 *No Additional Units.* Except as permitted by Sections 4.2, 4.10 and 13.2, no additional Units shall be issued by the Partnership.

4.4 *No Preemptive Rights.* No Partner shall have any preemptive right with respect to (a) additional Capital Contributions; (b) issuance or sale of Units, whether unissued, held in the treasury or hereafter created; (c) issuance of any obligations, evidences of indebtedness or other securities of the Partnership convertible into or exchangeable for, or carrying or accompanied by any rights to receive, purchase or subscribe to, any such unissued Units or Units held in treasury; (d) issuance of any right of, subscription to or right to receive, or any warrant or option for the purchase of, any of the foregoing securities; or (e) issuance or sale of any other securities that may be issued or sold by the Partnership.

4.5 *Capital Accounts.*

(a) The Partnership shall maintain for each Partner a separate Capital Account in accordance with the rules of Treasury Regulation Section 1.704-1(b)(2)(iv). Such Capital Account shall be increased by

1(b)(2)(ii)(d)(6), items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate a deficit in its Capital Account created by such adjustments, allocations or distributions as quickly as possible. This Section 5.1(b) is intended to constitute a "qualified income offset" within the meaning of Treasury Regulation Section 1.704-1(b)(2)(ii)(d)(3).

(d) If any Partner's Capital Account has a deficit balance resulting in whole or in part from allocations of loss or deduction attributable to nonrecourse debt which is secured by Partnership property, which deficit balance exceeds such Partner's share of minimum gain (as defined below), then income and gain shall first be allocated to such Partner in an amount equal to such excess. For purposes of this Section 5.1(d), "minimum gain" means the excess of the outstanding principal balance of nonrecourse debt which is secured by Partnership property over the Partnership's adjusted tax basis of such property. This Section 5.1(c) is intended to comply with the requirements of Treasury Regulation Section 1.704-1(b)(4)(iv), and is to be interpreted, if possible, to comply with the requirements of such regulation as finally promulgated. The General Partner shall have complete discretion to amend the provisions of this Agreement if such amendment would not have a material adverse effect on the Limited Partners and if, in the opinion of counsel, such amendment is advisable for purposes of Treasury Regulation Section 1.704-1(b)(4)(iv).

(e) Any Recapture Income resulting from the sale or other taxable disposition of any Partnership asset shall be allocated, to the extent possible, among the Partners in the same proportions that the deductions directly or indirectly giving rise to such Recapture Income were allocated.

(f) All items of income, gain, loss, deduction, credit and basis allocation recognized by the Partnership for federal income tax purposes and allocated to the Partners in accordance with the provisions hereof shall be determined without regard to any election under Section 754 of the Code which may be made by the Partnership; provided, however, such allocations, once made, shall be adjusted as necessary or appropriate to take into account those adjustments permitted or required by Sections 734 and 743 of the Code and, where appropriate, to provide only Partners recognizing gain on Partnership distributions covered by Section 734 of the Code with the federal income tax benefits attributable to the increased basis in Partnership property resulting from any election under Section 754 of the Code.

(g) Each item of Partnership income, gain, loss, deduction and credit shall, for federal income tax purposes, be, beginning at the earlier of (x) the end of the first full calendar month following the month in which the Commencement Date occurs or (y) the last day of the calendar month in which both the Commencement Date and the Date of Second Delivery occur, determined on a monthly interim-closing-of-the-books basis and shall be allocated to the Record Holders as of the close of business on the last day of the month. The General Partner may revise, alter or otherwise modify such method of determination and allocation as it determines necessary to comply with Section 706 of the Code and regulations or rulings promulgated thereunder.

(h) If any fees deducted for federal income tax purposes by the Partnership are recharacterized by a final determination of the Internal Revenue Service as nondeductible distributions to the General Partner, then, notwithstanding all other allocation provisions, gross income shall be allocated to the General Partner (for the year(s) of adjustment) in an amount equal to the fees recharacterized.

(i) If cumulative Taxable Income exceeds the cumulative cash distributions as of the end of any taxable year, the allocation under Section 5.1(a)(iii)(E) shall be applicable. However, to the extent the first cash distributions thereafter are not in proportion to such allocation, then an adjusting allocation of Taxable Income or Taxable Loss shall be made as soon as possible that equalizes the allocation of cumulative Taxable Income with cumulative cash distributions as to each of the Partners.

other procedures as it may deem appropriate to reflect such distribution, subdivision or combination; provided, however, that in the event any such distribution, subdivision or combination results in a smaller total number of Units Outstanding, the General Partner shall require, as a condition to the delivery to a Record Holder of such new Certificate, the surrender of any Certificate held by such Record Holder immediately prior to such Record Date.

(d) The Partnership shall not be required to issue fractional Units upon any distribution, subdivision or combination of Units. In the event any distribution, subdivision or combination of Units would result in the issuance of fractional Units but for the provisions of Section 4.10(d), each fractional Unit shall be rounded to the nearest whole Unit.

ARTICLE V

ALLOCATIONS AND DISTRIBUTIONS

5.1 *Allocations.*

(a) For purposes of maintaining the Capital Accounts and in determining the rights of the Partners among themselves, except as otherwise provided in this Section 5.1, Taxable Income and Taxable Loss (and each item thereof) (computed in accordance with Section 4.5(b)) shall be allocated as follows and, for purposes of Articles IV and V and Section 14.3(b), an Assignee shall be deemed to be a Limited Partner:

(i) General Partner Interest Deductions shall be allocated to the General Partner.

(ii) Taxable Loss and nondeductible items shall be allocated to the Partners in accordance with their Percentage Interests; provided that any Taxable Loss otherwise allocable to a Limited Partner which would result in a deficit balance in such Limited Partner's Capital Account in excess of such Limited Partner's share of minimum gain (as defined below) shall be allocated to the General Partner.

(iii) Taxable Income shall be allocated as follows:

(A) First, to the General Partner until the cumulative Taxable Income so allocated equals the cumulative Taxable Loss previously allocated to the General Partner pursuant to the proviso contained at the end of Section 5.1(a)(ii);

(B) Second, to the Partners, pro rata in proportion to cumulative Taxable Loss and nondeductible items previously allocated, up to the amount of such Taxable Loss and nondeductible items;

(C) Third, to the Partners in accordance with their Percentage Interests until the cumulative Taxable Income so allocated equals the sum of all prior and concurrent distributions pursuant to Sections 5.2(a) and 5.3(a);

(D) Fourth, to the Partners pro rata in proportion to the cumulative prior and concurrent distributions pursuant to Sections 5.2(b) (to the extent any such distributions were not taken into account in determining the allocations pursuant to Section 5.1(a)(iii)(C)) and 5.3(c) until the cumulative Taxable Income so allocated equals the amount of all such distributions. If distributions were made pursuant to Section 5.2(b) or 5.3(c) in more than one prior fiscal year, the allocation required by this Section 5.1(a)(iii)(D) shall be made on a year-by-year basis and shall begin with the earliest fiscal year; and

(E) Thereafter, 70.71% to the Limited Partners in accordance with their Proportionate Shares and 29.29% to the General Partner.

(b) Notwithstanding Sections 5.1(a)(ii) and (iii), if the General Partner's interest in the Partnership has been converted into Units pursuant to Section 13.2(b), Taxable Income and Loss shall, beginning with the month following the effective date of such conversion, be allocated to the Partners in accordance with their Percentage Interests.

(c) If any Partner unexpectedly receives any adjustments, allocations or distributions described in Treasury Regulations Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-

(subject to any prior approval which may be required by Section 16.1); (iii) the use of the assets of the Partnership (including, without limitation, cash on hand) for any purpose and on any terms it sees fit, including, without limitation, the financing of the conduct of the operations of the Partnership, the lending of funds to other Persons and the repayment of obligations of the Partnership; (iv) the negotiation and execution on any terms deemed desirable in its sole discretion and the performance of any contracts, conveyances or other instruments that it considers useful or necessary to the conduct of the Partnership operations or the implementation of its powers under this Agreement; (v) the distribution of Partnership cash; (vi) the selection and dismissal of employees and outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring; (vii) the maintenance of such insurance for the benefit of the Partnership and the Partners as it deems necessary; (viii) the formation of any further limited or general partnerships, joint ventures or other relationships that it deems desirable (including, without limitation, the Operating Partnership); (ix) the control for any matters affecting the right and obligations of the Partnership, including the conduct of litigation and the incurring of legal expense and the settlement of claims and litigation; (x) the purchase, sale or other acquisition or disposition of Units at such times and on such terms as it deems to be in the best interests of the Partnership and the Partners; (xi) the lending or borrowing of money, the assumption or guarantee of or other contracting for indebtedness and other liabilities, the issuance of evidences of indebtedness and the securing of same by mortgage, deed of trust or other lien or encumbrance, the bringing and defending of actions at law or in equity and the indemnification of any Person against liabilities and contingencies to the extent permitted by law; and (xii) to enter into listing agreements with the American Stock Exchange and any other securities exchange and to delist some or all of the Units from, or request that trading be suspended on, any such exchange and (y) in connection with the Partnership's participation in the Operating Partnership as the limited partner (including, without limitation, the contribution to the Operating Partnership of the Partnership's assets and properties and the loan of Partnership funds to the Operating Partnership and any Affiliate thereof permitted herein).

(b) Each of the Partners hereby approves, ratifies and confirms the execution, delivery and performance of the Purchase and Sale Agreement and the Operating Partnership Agreement and agrees that the General Partner is authorized to execute, deliver and perform the other agreements, acts, transactions and matters contemplated therein on behalf of the Partnership without any further act, approval or vote of the Partners of the Partnership, notwithstanding any other provision of this Agreement or the Operating Partnership Agreement, the Delaware Act or any applicable law, rule or regulation. The participation by the General Partner in any agreement authorized or permitted under this Agreement shall not constitute a breach by the General Partner of any duty that the General Partner may owe the Partnership or the Limited Partners under this Agreement or under applicable law.

6.2 *Certificate of Limited Partnership.* The General Partner shall file a Certificate of Limited Partnership of the Partnership with the Secretary of State of the State of Delaware as required by the Delaware Act and shall cause to be filed such other certificates or documents as may be determined by the General Partner to be reasonable and necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the Limited Partners have limited liability) in the State of Delaware or any other state in which the Partnership may elect to do business. To the extent that the General Partner in its sole discretion determines such action to be reasonable and necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate of Limited Partnership and do all the things to maintain the Partnership as a limited partnership (or a partnership in which the Limited Partners have limited liability) under the laws of the State of Delaware or any other state in which the Partnership may elect to do business. Subject to applicable law, the General Partner may omit from the Certificate of the Limited Partnership of the Partnership filed with the Secretary of State of Delaware and from any other certificates or documents filed in any other state in order to qualify the Partnership to do business therein, and from all amendments thereto, the names and addresses of the Limited Partners and information relating to the Capital Contributions and shares of profits and compensation of the Limited Partners, or state such information in the aggregate rather than with respect to each individual Limited Partner. Subject to the terms of Section 7.5(a), the General Partner shall not be required to deliver or mail a copy of the Certificate of Limited Partnership or any amendment thereto to any Limited Partner.

5.2 *Distributions of Cash Flow Available for Distribution.*

The General Partner shall cause the Partnership to distribute Cash Flow Available for Distribution and the proceeds of any borrowings pursuant to the revolving credit facility provided by the General Partner pursuant to Section 6.8(a) with respect to each fiscal year of the Partnership not less often than quarterly. Such distributions shall be made as follows:

(a) First, to the Partners in accordance with their Percentage Interests until the Limited Partners have received from all distributions of Cash Available for Distribution during such year an amount equal to a 12% non-compounded, non-cumulative return on the weighted average balances of their Net Invested Capital outstanding from time to time in such year; and

(b) Thereafter, 70.71% to the Limited Partners in accordance with their Proportionate Shares and 29.29% to the General Partner.

5.3 *Distributions of Sale or Refinancing Proceeds.* The General Partner shall cause the Partnership to distribute Sale or Refinancing Proceeds as follows:

(a) First, to the Partners in accordance with their Percentage Interests until the amount so distributed to the Limited Partners, when added to all prior distributions of Cash Flow Available for Distribution made and all prior distributions of Sale or Refinancing Proceeds (other than distributions pursuant to Section 5.3(b)) equals a 12% cumulative, non-compounded return on the weighted average balances of their Net Invested Capital outstanding from time to time prior to the Capital Return Date; and

(b) Second, to the Partners in accordance with their Percentage Interests until such time as the amount so distributed to the Limited Partners, when added to all prior distributions to them of Sale or Refinancing Proceeds (other than distributions pursuant to Section 5.3(a)) pursuant to this Section 5.3(b), equals their Net Invested Capital (the "Capital Return Date");

(c) Thereafter, 70.71% to the Limited Partners in accordance with their Proportionate Shares and 29.29% to the General Partner.

5.4 *Certain Payments Not Distributions.* Any amounts paid pursuant to Section 6.5 shall not be deemed to be distributions for purposes of this Agreement.

5.5 *Treatment of Distributions.* Distributions by the Partnership shall be considered advances or drawings against the Partners' distributive shares of income, gain, loss and deduction, which distributive shares shall be determined at the close of the Partnership's taxable year.

ARTICLE VI

MANAGEMENT AND OPERATION OF BUSINESS

6.1 *Management.*

(a) The General Partner shall conduct, direct and exercise full control over all activities of the Partnership. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership shall be exclusively vested in the General Partner, and no Limited Partner shall have any right of control or management power over the business and affairs of the Partnership. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or which are granted to the General Partner under any other provision of this Agreement, the General Partner shall have full power and authority to do all things deemed necessary or desirable by it (x) to conduct the business of the Partnership, including, without limitation, (i) the making of any expenditures, the borrowing of money, the guaranteeing of indebtedness and other liabilities, the issuance of evidences of indebtedness, and the incurring of any obligations it deems necessary for the conduct of the activities of the Partnership; (ii) the acquisition, disposition (subject to any prior approval which may be required by Section 16.1), mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Partnership and the merger of the Partnership with or into another entity

(c) Except as provided below, the General Partner shall be reimbursed on a monthly basis, or such other basis as the General Partner may determine in its sole discretion, for all normal, ongoing direct expenses it incurs or makes on behalf of the Partnership (including amounts paid to any Person to perform services to the Partnership) and for that portion of its General Partner's and its Affiliates' in-house legal and accounting costs and expenses, telephone, secretarial, aircraft, travel and entertainment expenses, office rent and other office expenses, salaries, fees and other compensation expenses of employees, officers and directors, other administrative expenses and other expenses necessary or appropriate to the conduct of the Partnership's business and allocable to the Partnership. The General Partner shall determine the expenses which are allocable to the Partnership in any reasonable manner. Such reimbursements shall be in addition to any reimbursement to the General Partners as a result of indemnification pursuant to Section 6.9. Notwithstanding the foregoing, no such reimbursement shall be made for such expenses incurred prior to the last day of the third twelve-month period described in the definition of "Priority Distribution." Rather, for such periods, the General Partner shall receive a fee of $325,000 for each such twelve-month period for performing or causing to be performed the services described in this Section 6.5(c). Such fee is payable without regard to the Partnership's income and is intended to be a "guaranteed payment" under Section 707(c) of the Code. In addition, the General Partner shall be reimbursed for all extraordinary expenses. Notwithstanding the foregoing, if the General Partner is not then an Affiliate of Red Lion, the normal, ongoing expense reimbursement described above shall, after the expiration of the third twelve-month period, be limited to an amount equal to ½% of the Operating Partnership's gross revenues.

(d) The General Partner in its sole discretion and without the approval of the Limited Partners may propose and adopt fringe benefit plans, for the benefit of employees of the General Partner, the Partnership, the Operating Partnership or any Affiliate of any of them in respect of services performed, directly or indirectly, for the benefit of the Partnership or the Operating Partnership.

6.6 *Outside Activities.*

(a) The General Partner shall be entitled to and may have interests and engage in activities without having or incurring any obligation to offer any interest in such properties or activities to the Partnership, the Operating Partnership or any Partner, and no other provision of this Agreement shall be deemed to prohibit any such Person from conducting such other businesses and other activities. Neither the Partnership, the Operating Partnership nor any of the Partners shall have any rights by virtue of this Agreement or the partnership relationship created hereby in any business ventures of the General Partner.

(b) Any Affiliate of the General Partner and any director, officer, partner or employee of the General Partner or any Affiliate of the General Partner shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership and may engage in any other business and activities, including business interests and activities in direct competition with the Partnership and the Operating Partnership for their own account and for the account of others, and may own interests in the same properties as those in which the Partnership or the Operating Partnership owns an interest, without having or incurring any obligation to offer any interest in such properties, businesses or activities to the Partnership, the Operating Partnership or any Partner, and no other provision of this Agreement shall be deemed to prohibit any such Person from conducting such other businesses and other activities. Neither the Partnership, the Operating Partnership nor any of the Partners shall have any rights by virtue of this Agreement or the partnership relationship created hereby in any business ventures of any Affiliate of the General Partner or any director, officer, partner or employee of the General Partner or an Affiliate of the General Partner. The General Partner and any other Persons affiliated with the General Partner may acquire Units, in addition to those acquired by any of such Persons on the Commencement Date, and shall be entitled to exercise all rights of an Assignee or Limited Partner, as applicable, relating to such Units.

6.7 *Partnership Funds.* The funds of the Partnership shall be deposited in such account or accounts as are designated by the General Partner, provided that the funds of the Partnership will not be commingled with funds of any other Person. The General Partner may use the funds of the Partnership as compensating balances for its benefit, provided that such funds do not directly or indirectly secure, and are not otherwise at risk on account of, any indebtedness or other obligation of the General Partner or any director, officer, partner, employee or Affiliate thereof. Nothing in this Section 6.7 shall be deemed to

6.3 *Reliance by Third Parties.* Notwithstanding any other provision of this Agreement to the contrary, no lender or purchaser, including any purchaser of property from the Partnership or any other Person dealing with the Partnership, shall be required to look to the application of proceeds hereunder or to verify any representation by the General Partner as to the extent of the interest in the assets of the Partnership that the General Partner is entitled to encumber, sell or otherwise use, and any such lender or purchaser shall be entitled to rely exclusively on the representations of the General Partner as to its authority to enter into such financing or sale arrangements and shall be entitled to deal with the General Partner as if it were the sole party in interest therein, both legally and beneficially. Each Limited Partner and Assignee hereby waives any and all defenses or other remedies that may be available against such lender, purchaser or other Person to contest, negate or disaffirm any action of the General Partner in connection with any sale or financing. In no event shall any Person dealing with the General Partner or the General Partner's representative with respect to any business or property of the Partnership be obligated to ascertain that the terms of this Agreement have been complied with, or be obligated to inquire into the necessity or expedience of any act or action of the General Partner or the General Partner's representative; and every contract, agreement, deed, mortgage, security agreement, promissory note or other instrument or document executed by the General Partner or the General Partner's representative with respect to any business or property of the Partnership shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (a) at the time of the execution and/or delivery thereof this Agreement was in full force and effect, (b) such instrument or document was duly executed in accordance with the terms and provisions of this Agreement and is binding upon the Partnership, and (c) the General Partner or the General Partner's representative was duly authorized and empowered to execute and deliver any and every such instrument or document for and on behalf of the Partnership.

6.4 *Purchase or Sale of Units.*

(a) The General Partner may cause the Partnership to purchase or otherwise acquire (or may purchase or otherwise acquire on behalf of the Partnership) Units. As long as such Units are held by the Partnership or the Operating Partnership, such Units shall not be considered Outstanding for any purpose, except as otherwise provided herein. The General Partner may also purchase or otherwise acquire and sell or otherwise dispose of Units for its own account.

(b) At any time and from time to time, the General Partner (including the General Partner in its capacity as a Departing Partner) or any Affiliate thereof shall have the right to cause the Partnership, upon the request of such Person, to file with the Securities and Exchange Commission as promptly as practicable after receiving such request, and to use all reasonable efforts to cause to become effective, a registration statement under the Securities Act registering all or a portion of the Units then owned by such Person and included in such request for offer and sale. In connection with any registration pursuant to the preceding sentence, the Partnership shall promptly prepare and file such documents as may be necessary to register or qualify the Units subject to such registration under the securities laws of such states as such Person shall reasonably request and do any and all other acts and things which may reasonably be necessary or advisable to enable such Person to consummate a public sale of such Units in such states. Registrations effected under this Section 6.4(b) shall be effected at the expense of the Partnership (except for underwriting discounts and commissions). If offered in an underwriting, the Partnership shall provide indemnification, opinions and other assurances to the underwriters in form and substance reasonably satisfactory to such underwriters.

6.5 *Compensation and Reimbursement of the General Partner.*

(a) Except as provided in this Section 6.5 and elsewhere in this Agreement or in the Operating Partnership Agreement, the General Partner shall not be compensated for its services as General Partner to the Partnership.

(b) The General Partner shall be reimbursed for all expenses, disbursements and advances incurred or made in connection with the organization of the Partnership and the Operating Partnership, the initial offering of Units to the public, the qualification of the Partnership, the Operating Partnership and the General Partners to do business, and any subsequent offerings of securities by the Partnership.

(f) Any Sale of a Hotel or of the Partnership's interest in the Operating Partnership to the General Partner or an Affiliate of the General Partner (including Sales made pursuant to a right of first refusal or similar arrangement) shall be subject to the prior approval of a majority of the outside directors of the General Partners and, notwithstanding anything to the contrary in Section 6.11, shall be subject to the General Partner's determination that such a Sale is in the best interest of the Partnership.

6.9 *Indemnification of the General Partner.*

(a) To the fullest extent permitted by law, the General Partner, its Affiliates and their respective directors, officers, partners, employees and agents (individually, an "Indemnitee") shall each be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint and several, expenses (including legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, in which the Indemnitee may be involved, or threatened to be involved, as a party or otherwise by reason of its status as (x) the General Partner or an Affiliate thereof or (y) a director, officer, partner, employee or agent of the General Partner or an Affiliate thereof or (z) a Person serving at the request of the Partnership in another entity in a similar capacity, which relate to or arise out of the Partnership, its property, business or affairs, including, without limitation, the Initial Offering, regardless of whether the Indemnitee continues to be the General Partner or an Affiliate thereof or a director, officer, partner, employee or agent of the General Partner or an Affiliate thereof at the time any such liability or expense is paid or incurred, if (i) the Indemnitee acted in good faith and in a manner it in good faith believed to be in, or not opposed to, the best interests of the Partnership, and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful, and (ii) the Indemnitee's conduct did not constitute gross negligence or willful or wanton misconduct. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not, of itself, create a presumption that the Indemnitee acted in a manner contrary to that specified in (i) or (ii) above. Any indemnification pursuant to this Section 6.9 shall be made only out of the assets of the Partnership.

(b) To the fullest extent permitted by law, expenses (including legal fees) incurred by an Indemnitee in defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the Partnership prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Partnership of an undertaking by or on behalf of the Indemnitee to repay such amount if it shall be determined that the Indemnitee is not entitled to be indemnified as authorized in this Section 6.9.

(c) The indemnification provided by this Section 6.9 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement, vote of the Partners, as a matter of law or otherwise, both as to action in the Indemnitee's capacity as the General Partner or an Affiliate thereof or as a director, officer, partner, agent or employee of the General Partner or an Affiliate thereof and to action in any other capacity (including, without limitation, any capacity under the Underwriting Agreement and the Purchase and Sale Agreement), and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee.

(d) The Partnership may purchase and maintain insurance on behalf of the General Partner and such other Persons as the General Partner shall determine against any liability that may be asserted against or expense that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 6.9, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall be deemed "fines" within the meaning of Section 6.9(a); and action taken or omitted by it with respect to an employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is in, or not opposed to, the best interests of the Partnership.

prohibit or limit in any manner the right of the Partnership to lend funds to the General Partner or any Affiliate thereof pursuant to Section 6.8(b). All withdrawals from or charges against such accounts shall be made by the General Partner or by its officers or agents. Funds of the Partnership may be invested as determined by the General Partner, except in connection with acts otherwise prohibited by this Agreement.

6.8 *Loans to or from the General Partner; Contracts with Affiliates.*

(a) The General Partner or any Affiliate thereof may lend to the Partnership funds needed by the Partnership for such periods of time as the General Partner may determine; provided, however, that the General Partner or such Affiliate may not charge the Partnership interest at a rate greater than the rate (including points or other financing charges or fees) that would be charged the Partnership (without reference to the General Partner's financial abilities or guarantees) by unrelated lenders on comparable loans. The Partnership shall reimburse the General Partner or any Affiliate of the General Partner, as the case may be, for any costs incurred by it in connection with the borrowing of funds obtained by the General Partner or such Affiliate and loaned to the Partnership. In addition to the foregoing, the General Partner shall, through the last day of the third twelve-month period described in the definition of "Priority Distribution," make available for the Partnership, an unsecured, interest-free, revolving line of credit in the aggregate principal amount of Four Million Dollars ($4,000,000) at any one time outstanding, solely for the purpose of providing funds to make distributions pursuant to Section 5.2(a) up to the amount of the Priority Distribution for such period, to the extent Cash Flow Available for Distribution is otherwise insufficient. Such obligation to make such revolving line of credit available shall terminate upon withdrawal or removal of the General Partner. Amounts outstanding under such revolving line of credit shall, except as set forth in the following sentence, be repaid only if, and to the extent that, as of each anniversary date of the commencement of the Partnership's operations, Cash Flow Available for Distribution (excluding for this purpose any subtraction therefrom for repayments of the revolving line of credit provided for in this Section 6.8(a)) exceeds the Priority Distributions for the preceding twelve-month period. Amounts outstanding under such facility shall also be repaid to the extent of Sale or Refinancing Proceeds (excluding for this purpose any subtraction therefrom for revolving line of credit payments hereunder).

(b) The Partnership may lend or contribute funds to the Operating Partnership on terms and conditions established in the sole discretion of the General Partner. The foregoing authority shall be exercised by the General Partner in its sole discretion and shall not create any right or benefit in favor of the Operating Partnership or any other Person.

(c) The General Partner may itself, or may enter into an agreement with any of its Affiliates to, render services for the Partnership. Any service rendered to the Partnership by the General Partner or any such Affiliate shall be on terms that are fair and reasonable to the Partnership and are, in the aggregate, no less favorable than those which could be obtained from unaffiliated third parties for comparable quality; provided that the conditions of this Section 6.8(c) expressly shall be deemed to be satisfied with respect to the fees payable pursuant to the Management Agreement. The provisions of Section 6.5 shall apply to the rendering of services described in this Section 6.8(c).

(d) The Partnership may transfer assets to joint ventures, other partnerships, corporations or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions consistent with applicable law as the General Partner deems appropriate.

(e) Except as otherwise provided in Section 6.8(f), neither the General Partner nor any Affiliate thereof shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that are fair and reasonable to the Partnership and are, in the aggregate, no less favorable than those which could be obtained from unaffiliated third parties for comparable quality; provided that the conditions of this Section 6.8(e) expressly shall be deemed to be satisfied as to the transactions effected pursuant to the Management Agreement and the Purchase and Sale Agreement.

(b) The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers, and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the opinion of such Persons as to matters which the General Partner believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and not to constitute gross negligence or willful or wanton misconduct.

6.13 *Title to Partnership Assets.* Title to Partnership assets, whether real, personal or mixed, tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner or Assignee, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner or one or more nominees, as the General Partner may determine. The General Partner hereby declares and warrants that any Partnership assets for which legal title is held in the name of the General Partner shall be held in trust by the General Partner for the use and benefit of the Partnership in accordance with the terms or provisions of this Agreement. All Partnership assets shall be recorded as the property of the Partnership on its books and records, irrespective of the name in which legal title to such Partnership assets is held.

6.14 *Assets of the General Partner.* The General Partner covenants and agrees that so long as it is the general partner of the Partnership, it will use all reasonable efforts to maintain net assets (exclusive of its interest in, and receivables from, the Partnership) in an amount equal to 10% of the Limited Partners' Capital Contributions.

6.15 *Limitation on Certain Refinancings.* Prior to the last day of the original term of the initial Partnership mortgage loan secured by the Hotels, the General Partner will not use any proceeds of a Refinancing to pay deferred Incentive Management Fees pursuant to the Management Agreement or to pay amounts outstanding under the line of credit provided pursuant to Section 6.8(a) unless an equal amount of such proceeds is distributed to the Limited Partners pursuant to Section 5.3.

ARTICLE VII

RIGHTS AND OBLIGATIONS OF LIMITED PARTNERS

7.1 *Limitation of Liability.* The Limited Partners shall have no liability under this Agreement except as provided in this Agreement or in the Delaware Act.

7.2 *Management of Business.* No Limited Partner (other than a General Partner, an Affiliate thereof or their directors, officers, partners, employees or agents in their capacity as such) shall take part in the operation, management or control (within the meaning of the Delaware Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. The transaction of any such business by a director, officer, partner, employee or agent of the General Partner or an Affiliate thereof in its capacity as such shall not affect, impair or eliminate the limitations on the liability of any Limited Partner under this Agreement.

7.3 *Outside Activities.* A Limited Partner shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership or the Operating Partnership. Neither the Partnership nor any of the other Partners shall have any rights by virtue of this Agreement in any business ventures of any Limited Partner.

7.4 *Return of Capital.* No Limited Partner shall be entitled to the withdrawal or return of his Capital Contribution, except to the extent, if any, that distributions made pursuant to this Agreement or upon termination of the Partnership may be considered as such by law and then only to the extent provided for in this Agreement. No Limited Partner shall have priority over any other Limited Partner either as to the return of Capital Contributions or as to profits, losses or distributions.

(f) In no event may an Indemnitee subject the Limited Partners or Assignees to personal liability by reason of these indemnification provisions.

(g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 6.9 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) The provisions of this Section 6.9 are for the benefit of the Indemnitees and shall not be deemed to create any rights for the benefit of any other Persons.

6.10 *Liability of the General Partner.*

(a) Neither the General Partner nor the partners or shareholders, directors, officers, employees or agents of the General Partner shall be liable to the Partnership, Limited Partners, Assignees or to any Persons who have acquired interests in the Units, whether as Limited Partners, Assignees or otherwise, for errors in judgment or for any acts or omissions taken in good faith.

(b) The General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents, and the General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by the General Partner in good faith.

6.11 *Resolution of Conflicts of Interest.*

(a) Unless otherwise expressly provided in this Agreement or the Operating Partnership Agreement, (i) whenever a conflict of interest exists or arises between the General Partner or any of its Affiliates, on the one hand, and the Partnership, the Operating Partnership, any Limited Partner or any Assignee, on the other hand, or (ii) whenever this Agreement, the Operating Partnership Agreement or any other agreement contemplated herein or therein provides that the General Partner shall act in a manner which is, or provide terms which are, fair and/or reasonable to the Partnership, the Operating Partnership, any Limited Partner or any Assignee, the General Partner shall resolve such conflict of interest, take such action or provide such terms considering, in each case, the relative interests of each party to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interests, any customary or accepted industry practices, and any applicable generally accepted accounting practices or principles, and in the absence of bad faith by the General Partner, the resolution, action or terms so made, taken or provided by the General Partner shall not constitute a breach of this Agreement, the Operating Partnership Agreement or any other agreement contemplated herein or therein.

(b) Whenever in this Agreement or the Operating Partnership Agreement the General Partner is permitted or required to make a decision (i) in its "sole discretion" or "discretion", with "complete discretion" or under a grant of similar authority or latitude, the General Partner shall be entitled to consider only such interests and factors as it desires and shall have no duty or obligation to give any consideration to any interest of or factors affecting the Partnership, the Operating Partnership, the Limited Partners or the Assignees, or (ii) in its "good faith" or under another express standard, the General Partner shall act under such express standard and shall not be subject to any other or different standards imposed by this Agreement, the Operating Partnership Agreement or any other agreement contemplated herein or therein.

(c) Notwithstanding the foregoing, the General Partner shall not cause the Partnership or the Operating Partnership to give consent under Section 9.1(a) of the Management Agreement unless the General Partner determines that such consent is in the best interests of the Partnership.

(d) The Limited Partners hereby authorize the General Partner, on behalf of the Partnership as the limited partner of the Operating Partnership, to approve of similar actions by the general partner of the Operating Partnership.

6.12 *Other Matters Concerning the General Partner.*

(a) The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(ii) The redemption price shall be the lower of the Unit Price (the date of determination of which shall be the date fixed for redemption and the number of trading days in the definition thereof being 30 rather than 4) or the lowest price paid for any Units owned by the Unitholder in question, multiplied in either case by the number of Redeemable Units. The redemption price shall be paid, in the sole discretion of the General Partner, in cash or by delivery of a promissory note of the Partnership in the principal amount of the redemption price, bearing interest at a fluctuating rate per annum equal to 2 % less than the fluctuating per annum rate of interest from time to time announced by United States National Bank of Oregon as its prime rate, and payable in twenty equal annual installments of principal, together with accrued interest, commencing one year after the redemption date; provided that the Partnership may defer any payment otherwise required (other than at final maturity) to the extent that, if such payment were made, Cash Flow Available for Distribution for the year in which such payment is due would, in the opinion of the General Partner, be insufficient to make the maximum distribution required pursuant to Section 5.2(a) for such year.

(iii) Upon surrender by or on behalf of the Unitholder, at the place specified in the notice of redemption, of the Certificate evidencing the Redeemable Units, duly endorsed in blank or accompanied by an assignment duly executed in blank, the former Unitholder or his duly authorized representative shall be entitled to receive the payment therefor. No interest will be paid on amounts of cash set aside for payments hereunder after the redemption date.

(iv) After the redemption date, whether or not payment has been made therefor, the Redeemable Units shall no longer be issued and Outstanding and shall no longer be entitled to any allocations or distributions to which the Unitholder would otherwise be entitled.

ARTICLE VIII

BOOKS, RECORDS, ACCOUNTING AND REPORTS

8.1 *Records and Accounting.* The General Partner shall keep or cause to be kept at the principal office of the Partnership appropriate books and records with respect to the Partnership's business including, without limitation, all books and records necessary to provide to the Limited Partners any information, lists and copies of documents required to be provided pursuant to Section 7.5(a). Any records maintained by the Partnership in the regular course of its business including the record of the holders of Units, books of account and records of Partnership proceedings, may be kept on or be in the form of punch cards, magnetic tape, photographs, micrographics or any other information storage device, provided that the records so kept are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for tax and financial reporting purposes, on an accrual basis in accordance with generally accepted accounting principles. All decisions as to accounting matters, except as specifically provided to the contrary herein, shall be made by the General Partner.

8.2 *Fiscal Year.* The fiscal year of the Partnership shall be the calendar year.

8.3 *Reports.*

(a) As soon as practicable, but in no event later than 90 days after the close of each fiscal year, the General Partner shall cause to be mailed to each Record Holder of a Unit as of the last day of that fiscal year an annual report containing financial statements of the Partnership for the fiscal year, presented in accordance with generally accepted accounting principles, such statements to be audited by a firm of independent public accountants selected by the General Partner.

(b) As soon as practicable, but in no event later than 75 days after the close of each calendar quarter, except the last calendar quarter of each fiscal year, the General Partner shall cause to be mailed to each Record Holder of a Unit as of the last day of that calendar quarter a report containing unaudited financial statements of the Partnership.

8.4 *Other Information.* The General Partner may release such information concerning the operations of the Partnership to such sources as is customary in the industry or required by law or regulation of any regulatory body.

7.5 *Rights of Limited Partners Relating to the Partnership.* In addition to other rights provided by this Agreement or by applicable law, and except as limited by Section 7.5(b), the Limited Partners shall have the following rights relating to the Partnership:

(a) Each Limited Partner shall have the right for a proper purpose reasonably related to such Limited Partner's interest as a limited partner in the Partnership, upon reasonable demand and at such Limited Partner's own expense:

(i) to obtain true and full information regarding the status of the business and financial condition of the Partnership;

(ii) promptly after becoming available, to obtain a copy of the Partnership's federal, state and local income tax returns for each year;

(iii) to have furnished to him, upon notification to the General Partner, a current list of the name and last known business, residence or mailing address of each Partner;

(iv) to obtain true and full information regarding the amount of cash contributed by each Partner and which each Partner has agreed to contribute in the future, and the date upon which each Partner became a Partner;

(v) to have furnished to him, upon notification to the General Partner, a copy of this Agreement and the Certificate of Limited Partnership and all amendments thereto, together with executed copies of any powers of attorney pursuant to which this Agreement, the Certificate of Limited Partnership and all amendments thereto have been executed; and

(vi) to inspect and copy any of the Partnership's books and records and obtain such other information regarding the affairs of the Partnership as is just and reasonable.

(b) Notwithstanding the other provisions hereof, the General Partner may keep confidential from the Record Holders for such period of time as the General Partner deems reasonable, any information which the General Partner reasonably believes to be in the nature of trade secrets or other information the disclosure of which the General Partner in good faith believes is not in the best interests of the Partnership or could damage the Partnership or its business or which the Partnership is required by law or by agreements with third parties to keep confidential.

7.6 *Certain Redemptions of Units.* Liquor licensing authorities in certain states where the Operating Partnership will do business have the authority to take disciplinary action, including, without limitation, suspension or revocation of any liquor license held by the Operating Partnership, and imposition of fines ("Disciplinary Action"). If the General Partner determines that the Partnership or the Operating Partnership is threatened with Disciplinary Action by reason of a Limited Partner or Assignee (a "Unitholder") failing to provide information to such liquor authorities with respect to such Unitholder's suitability or qualification to hold Units or that such Unitholder has been found by such liquor authorities unsuitable to hold Units, the Partnership may, unless such Unitholder disposes of its Units and provide evidence of such disposition satisfactory to the General Partner so as to eliminate the threat of Disciplinary Action, redeem the Partnership Interest of such Unitholder as follows:

(i) The General Partner shall not later than the thirtieth day before the date fixed for redemption, give notice of redemption to such Unitholder, at his last address designated on the records of the Partnership or the Transfer Agent, by registered or certified mail, postage prepaid. The notice shall be deemed to have been given when so mailed. The notice shall specify the Redeemable Units (which (x) may include any or all Units owned beneficially and of record by the Unitholder in question, (y) may merely specify that the Redeemable Units include all Units so owned and (z) may require the Unitholder to supply information as to the number of Units so owned and the price paid therefor), the date fixed for redemption, the place of payment, that payment of the redemption price will be made upon surrender of the Certificate evidencing the Redeemable Units, and that on and after the date fixed for redemption no further allocations or distributions to which the Unitholder would otherwise be entitled in respect of the Redeemable Units will accrue or be made.

(b) In its sole and absolute discretion and as provided for in Treasury Regulations under Section 1445 of the Code, the General Partner may elect to withhold a portion of any distribution made to Partners and Assignees who are "foreign persons" or who fail to provide to the Partnership an appropriate certificate in accordance with the applicable provisions of such Treasury Regulations.

ARTICLE X

ISSUANCE OF CERTIFICATES

10.1 *Issuance of Certificates.* Upon the issuance of Units, the General Partner shall cause the Partnership to issue one or more Certificates in the name of each Limited Partner evidencing the number of Units so issued. Upon the transfer of a Unit in accordance with the terms of this Agreement, the General Partner shall cause the Partnership to issue a replacement Certificate, according to such procedures as the General Partner may establish.

10.2 *Registration of Transfer and Exchange.*

(a) The Partnership will cause to be kept a register (the "Unit Register") in which, subject to such reasonable regulations as it may prescribe and subject to the provisions of Section 10.2(b), the Partnership will provide for the registration of Units and the transfer of such Units. The Transfer Agent is hereby appointed registrar for the purpose of registering Units and transfers of such Units as herein provided. Upon surrender for registration of transfer or exchange of any Certificate, and subject to the provisions of Section 10.2(b), the General Partner on behalf of the Partnership will execute, and the Transfer Agent will countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder's instructions, one or more new Certificates evidencing the same aggregate number of Units as did the Certificate so surrendered.

(b) Every Certificate surrendered for registration of transfer shall be duly accepted on the reverse side thereof or be accompanied by a written instrument of acceptance to the same effect in form satisfactory to the General Partner or the Transfer Agent, as the case may be (a "Transfer Application"), duly executed, in either case, by the transferee or such transferee's attorney duly authorized in writing. As a condition to the issuance of any new Certificate under this Section 10.2, the General Partner may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed with respect thereto.

10.3 *Mutilated, Destroyed, Lost or Stolen Certificates.*

(a) If any mutilated Certificate is surrendered to the Transfer Agent, the General Partner on behalf of the Partnership shall execute and the Transfer Agent shall countersign and deliver in exchange therefor a new Certificate evidencing the same number of Units as did the Certificate so surrendered.

(b) If there shall be delivered to the General Partner and the Transfer Agent (i) evidence to their satisfaction of the destruction, loss or theft of any Certificate and (ii) such security or indemnity as may be required by them to save each of them and any of their agents harmless, then, in the absence of notice to the General Partner of the Transfer Agent that such Certificate has been acquired by a bona fide purchaser, the General Partner on behalf of the Partnership shall execute and upon its request the Transfer Agent shall countersign and deliver, in exchange for and in lieu of any such destroyed, lost or stolen Certificate, a new Certificate evidencing the same number of Units as did the Certificate so destroyed, lost or stolen.

(c) As a condition to the issuance of any new Certificate under this Section 10.3, the General Partner may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Transfer Agent) connected therewith.

ARTICLE IX

TAX MATTERS

9.1 *Preparation of Tax Returns.* The General Partner shall arrange for the preparation and timely filing of all returns of Partnership income, gains, deductions, losses and other items necessary for federal and state income tax purposes and shall use all reasonable efforts to furnish to Record Holders within 75 days of the close of the taxable year the tax information reasonably required for federal and state income tax reporting purposes. The classification, realization and recognition of income, gain, losses and deductions and other items shall be on the cash or accrual method of accounting for federal income tax purposes, as the General Partner shall determine in its sole discretion. The taxable year of the Partnership shall be the calendar year, unless the General Partner shall determine otherwise in its sole discretion.

9.2 *Tax Elections.* Except as otherwise provided herein, the General Partner shall, in its sole discretion, determine whether to make any available election pursuant to the Code. The General Partner may, in its sole discretion, make the election under Section 754 of the Code in accordance with applicable regulations thereunder; provided, that, except with respect to periods ending on or before December 31, 1987, the General Partner shall make such election on behalf of the Partnership and the Operating Partnership if the Unit Price (determined by substituting sixty (60) trading days commencing on or after January 1, 1988 for four (4) trading days in the definition thereof) at any time shall exceed 125% of the Initial Unit Price; provided, further, that the General Partner shall not be required to make such election if it determines, in its sole and absolute discretion, that as a result of changes in federal income tax laws or regulations after the date hereof, the making of such election would not result in a significant advantage to the Limited Partners and Assignees. The General Partner shall have the right to seek to revoke any such election upon the General Partner's determination that such revocation is in the best interests of the Limited Partners and Assignees.

9.3 *Tax Controversies.* Subject to the provisions hereof, the General Partner is designated the Tax Matters Partner (as defined in Section 6231 of the Code), and is authorized and required to represent the Partnership (at the Partnership's expense) in connection with all examinations of the Partnership's affairs by tax authorities, including resulting administrative and judicial proceedings, and to expend Partnership funds for professional services and costs associated therewith. Each Partner agrees to cooperate with the General Partner and to do or refrain from doing any or all things reasonably required by the General Partner to conduct such proceedings.

9.4 *Organizational Expenses.* The Partnership shall elect to deduct expenses incurred in organizing the Partnership ratably over a 60-month period as provided in Section 709 of the Code.

9.5 *Taxation as a Partnership.* No election shall be made by the Partnership or any Partner for the Partnership to be excluded from the application of any of the provisions of Subchapter K, Chapter 1 of Subtitle A of the Code or from any similar provisions of any state tax laws.

9.6 *Opinions Regarding Taxation as a Partnership.* Notwithstanding any other provision of this Agreement, the requirement, as a condition to any action proposed to be taken under this Agreement, that the Partnership be furnished an Opinion of Counsel to the effect that the proposed transaction would not result in the Partnership ceasing to be treated as a partnership for federal income tax purposes shall not be applicable if the Partnership is at such time treated in all material respects as other than a partnership is currently treated for federal income tax purposes.

9.7 *FIRPTA Withholding.*

(a) Nothwithstanding any other provision of this Agreement, the General Partner is authorized to take any action that it determines to be necessary or appropriate to cause the Partnership to comply with any withholding requirements established under Section 1445 of the Code with regard to (i) the sale of "United States real property interests" (as defined in the Code), (ii) the distribution of cash or property to any Partner who is a "foreign person" (as defined in Treasury Regulation Section 1.1445-2T(b)(2)(i)(c)), or (iii) the transfer of Units.

(c) The General Partner agrees that for so long as Red Lion is the manager pursuant to the Management Agreement, the General Partner will be an Affiliate of Red Lion.

11.3 *Transfer of Units.* Any Units, including Units held by the General Partner, may be transferred.

(a) Until admitted as a Substituted Limited Partner pursuant to Article XII, the Record Holder of a Certificate shall be an Assignee in respect of such Units.

(b) Each distribution in respect of Units shall be paid by the Partnership, directly or through the Transfer Agent or through any other Person or agent, only to the Record Holders thereof as of the Record Date set for the distribution. Such payment shall constitute full payment and satisfaction of the Partnership's liability in respect of such payment, regardless of any claim of any Person who may have an interest in such payment by reason of an assignment or otherwise.

11.4 *Restrictions on Transfer.* Notwithstanding the other provisions of this Article XI, no transfer of any Unit or the Partnership Interest of any Limited Partner in the Partnership shall be made if such transfer (a) would violate the then applicable federal and state securities laws or rules and regulations of the Securities and Exchange Commission, any state securities commission or any other governmental authorities with jurisdiction over such transfer, (b) would result in the Partnership ceasing to be treated as a partnership for federal income tax purposes or (c) would affect the Partnership's existence or qualification as a limited partnership under the Delaware Act.

ARTICLE XII

ADMISSION OF INITIAL AND SUBSTITUTED LIMITED PARTNERS

12.1 *Admission of Initial Limited Partners.* On or before the Commencement Date, the General Partner shall admit the Initial Limited Partners to the Partnership. Each such party shall execute a counterpart of this Agreement (either individually or by its attorney or agent) and thereby agree to be bound by the terms hereof as a Limited Partner. Notwithstanding anything to the contrary in Section 12.2, the initial transferee of an Initial Limited Partner shall be admitted as a substitute limited partner, and such initial transferee's payment to his transferor for such Units constitutes his agreement to the terms and conditions of this Agreement, authority to the General Partner to execute this Agreement on his behalf and the granting of the power of attorney set forth in Section 1.4.

12.2 *Admission of Substituted Limited Partners.*

(a) A Limited Partner or Assignee shall have the power to give the transferee of such Person's Units the right to seek admission as a Substituted Limited Partner subject to the conditions of and in the manner permitted under this Agreement. By transfer of a Unit, the transferor is deemed to have given the transferee the right to seek admission as a Substituted Limited Partner subject to the conditions of and in the manner permitted under this Agreement. A transferor of a Certificate shall only have the authority to convey to a purchaser or other transferee who does not execute and deliver the Transfer Application, however, (i) the right to negotiate such Unit to a purchaser or other transferee and (ii) the right to transfer the right to request admission as a Substituted Limited Partner to such purchaser or other transferee in respect of the transferred Units. Each transferee of a Certificate (including any Person, such as a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, acquiring such Unit for the account of another Person) who executes a Transfer Application shall be deemed to have applied to become a Substituted Limited Partner with respect to Units transferred to such Person accepting such transfer. Such transferee shall become a Substituted Limited Partner at such time as the General Partner consents thereto, which consent may be given or withheld in the General Partner's sole discretion, and when any such admission is shown on the books and records of the Partnership. If such consent is withheld, such transferee shall be an Assignee. An Assignee shall have an interest in the Partnership equivalent to that of a Limited Partner with respect to allocations and distributions, including liquidating distributions, of the Partnership. With respect to voting rights attributable to Units that are held by Assignees, the General Partner shall be deemed to be the Limited Partner with respect thereto and shall, in exercising the voting rights in respect of such Units on any matter,

10.4 *Registered Owner.* The Partnership shall be entitled to treat the Record Holder as the Limited Partner or Assignee in fact of any Units and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Units on the part of any other Person, whether or not the Partnership shall have actual or other notice thereof, except as otherwise provided by law or any applicable rule, regulation, guideline or requirement of any stock exchange on which the Units are listed for trading. Without limiting the foregoing, when a Person (such as a broker, dealer, bank, trust company or clearing corporation, or an agent of any of the foregoing) is acting as a nominee, agent or in some other representative capacity for another Person in acquiring and/or holding Units, as between the Partnership on the one hand and such other Persons on the other hand, such representative Person (a) shall be the Limited Partner or Assignee (as the case may be) of record and beneficially, (b) must execute and deliver a Transfer Application and (c) shall be bound by this Agreement and shall have the obligations of a Limited Partner or Assignee (as the case may be) hereunder and as provided for herein.

ARTICLE XI

TRANSFER OF INTERESTS

11.1 *Transfer.*

(a) The term "transfer," when used in this Article XI with respect to a Partnership Interest, shall be deemed to refer to a transaction by which the General Partner assigns its Partnership Interest as the General Partner to another Person or by which the holder of a Unit assigns the Partnership Interest evidenced thereby to another Person who is or becomes an Assignee, and includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition.

(b) No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article XI. Any transfer or purported transfer of any Partnership Interest not made in accordance with this Article XI shall be null and void.

11.2 *Transfer of Interests of the General Partner.*

(a) The General Partner may not transfer all or any part of its Partnership Interest as the General Partner unless (i) a Majority Interest approves of such transfer and of the admission of such transferee as a General Partner, (ii) the transferee satisfies and agrees to assume and be bound by the provisions of this Agreement, including Section 6.14 and (iii) the Partnership receives an Opinion of Counsel that such transfer would not result in the loss of limited liability of any Limited Partner or of the limited partner in the Operating Partnership or cause the Partnership or the Operating Partnership to cease to be treated as a partnership for federal income tax purposes; provided, however, that any transfer by the General Partner of all of its Partnership Interest as general partner shall constitute a withdrawal for purposes of, and shall be effected by the General Partner only if not prohibited by, Section 13.1(a).

(b) Subject to compliance with Section 11.2(a)(ii), neither Sections 11.2(a)(i), 11.2(a)(iii) nor any other provision of this Agreement shall be construed to prevent (and all Partners hereby expressly consent to) (i) the transfer by the General Partner of all or any part of its Partnership Interest to an Affiliate of the General Partner; (ii) the transfer by the General Partner of its Partnership Interest upon its merger or consolidation with or into any other Person or the transfer by it of all or substantially all of its assets to another Person; and, in the case of either clause (i) or (ii), the assumption of the rights and duties of the General Partner by such Person; provided, in the case of either clause (i) or (ii), such Person furnishes to the Partnership an Opinion of Counsel that such transfer, merger, consolidation or assumption will not result in a loss of limited liability of any Limited Partner or of the limited partner in the Operating Partnership or result in the Partnership or the Operating Partnership ceasing to be treated as a partnership for federal income tax purposes; (iii) the transfer by the General Partner of any part of its interest in items of Partnership income, gain, losses, deductions, credits, distributions or surplus, so long as the General Partner retains an interest of at least 1% in each such item; or (iv) the General Partner's mortgaging, pledging, hypothecating or granting a security interest in all or any part of its Partnership Interest (in which case the General Partner shall continue to be the General Partner). In the case of a transfer pursuant to clause (i) or (ii) of this Section 11.2(b), the transferee shall be admitted to the Partnership as a General Partner immediately prior to the transfer of the General Partner's Partnership Interest, and the transferee shall continue the business and operations of the Partnership without dissolution.

13.2 *Interest of Departing Partner and Successor.*

(a) If the General Partner is not removed for cause, the Departing Partner shall, at its option exercisable prior to the effective date of the departure of such Departing Partner, promptly receive from its successor in exchange for its Partnership Interest as the General Partner an amount in cash equal to the fair market value of the Departing Partner's Partnership Interest as the General Partner herein, such amount to be determined and payable as of the effective date of its departure. If the General Partner is removed for cause, its successor shall have the option described in the immediately preceding sentence, and the Departing Partner shall not have such option. If the successor acquires its Partnership Interest as General Partner, such successor must also acquire at such time the partnership interest of the Departing Partner as the general partner in the Operating Partnership (together with the Departing Partner's Partnership Interest as General Partner, the "Combined Interest"), for an amount in cash equal to the fair market value of such Combined Interest, determined as of the effective date of its departure. Subject to Section 13.2(b), the Departing Partner shall, as of the effective date of its departure, cease to share in any allocations or distributions with respect to its Partnership Interest as the General Partner. For purposes of this Section 13.2, the fair market value of the Departing Partner's Combined Interest shall be determined by agreement between the Departing Partner and its successor or, failing agreement within 30 days after the effective date of such Departing Partner's departure, by an independent investment banking firm or other independent expert selected by the Departing Partner and its successor, which, in turn, may rely on other experts and the determination of which shall be conclusive as to such matter. If such parties cannot agree upon one independent investment banking firm or other independent expert within 45 days after the effective date of such departure, then such firm shall be designated by the independent investment banking firm or other independent expert selected by each of the Departing Partner and its successor. In making its determination, such independent investment banking firm or other independent expert shall consider the Unit Price, the value of the Partnership's assets, the rights and obligations of the General Partner and other factors it may deem relevant.

(b) If the Departing Partner's Combined Interest is not acquired pursuant to Section 13.2(a), the Departing Partner shall become a Limited Partner, and its Combined Interest shall be converted into Units, without any reduction in such Partnership Interest (subject to proportionate dilution by reason of the admission of its successor). The number of Units into which the Combined Interest of such Departing Partner shall be converted shall be equal to the number which results from dividing the fair market value (determined as provided in Section 13.2(a)) of the Departing Partner's Combined Interest (immediately before such departure) by the Unit Price (immediately before such departure).

This Agreement shall be amended to reflect any event described in Section 13.2(a) or (b), and any successor General Partner covenants so to amend.

(c) If the option described in Section 13.2(a) above is not exercised by the party entitled to do so, the successor to a Departing Partner shall at the effective date of its admission to the Partnership contribute to the capital of the Partnership cash in an amount such that its Capital Account, after giving effect to such contribution, shall be equal to that percentage of the Capital Accounts of all Partners that is equal to its Percentage Interest as a General Partner. In such event, such successor shall be entitled to such Percentage Interest, as the case may be, of all Partnership allocations and distributions.

13.3 *Withdrawal of Limited Partners.* No Limited Partner shall have any right to withdraw from the Partnership; provided, however, that when a transferee of a Limited Partner's Units becomes a Record Holder, such Limited Partner shall cease to be a Limited Partner with respect to the Units so transferred. No Limited Partner shall be entitled to receive any distribution from the Partnership for any reason or upon any event except as expressly set forth in Articles V and XIV.

vote such Units at the written direction of the Assignee who is the Record Holder of such Units. If no such written direction is received, such Units will not be voted. An Assignee shall have no other rights of a Limited Partner.

(b) The admission of an Assignee as a Substituted Limited Partner shall be effected without the consent of any of the Partners other than the General Partner.

12.3 *Admission of Successor General Partner.* A successor General Partner selected pursuant to Section 13.1 or the transferee of or successor to all or any part of the Partnership Interest of the General Partner pursuant to Section 11.2 who is proposed to be admitted as a General Partner shall be admitted to the Partnership as the General Partner, effective immediately prior to the withdrawal or removal of the General Partner pursuant to Section 13.1 or the transfer pursuant to Section 11.2; provided, however, that no withdrawal or removal can occur, and no such successor shall be admitted to the Partnership, until the successor has complied with Section 11.2(a)(ii). Any such successor shall carry on the business of the Partnership.

12.4 *Amendment of Agreement and Certificate of Limited Partnership.* For the admission to the Partnership of any successor General Partner, the General Partner shall take all steps necessary and appropriate to prepare as soon as practical an amendment of this Agreement and, if required by law, shall prepare and file an amendment to the Certificate of Limited Partnership and may for this purpose exercise the power of attorney granted pursuant to Section 1.4.

ARTICLE XIII

WITHDRAWAL OR REMOVAL OF PARTNERS

13.1 *Withdrawal or Removal of the General Partner.*

(a) The General Partner covenants and agrees that it will not withdraw as the General Partner of the Partnership for the term of the Partnership, subject to its right to transfer its Partnership Interest as General Partner pursuant to Section 11.2(b)(i) or 11.2(b)(ii) to an Affiliate of the General Partner or transferee that assumes the rights and duties of the General Partner under this Agreement. Except for transfers permitted by Section 11.2(b), any transfer by the General Partner of all of its Partnership Interest as the General Partner pursuant to Section 11.2(a) shall constitute the withdrawal of the General Partner for purposes of this Section 13.1(a). The withdrawal of the General Partner shall also constitute the withdrawal of the general partner of the Operating Partnership. Notwithstanding the foregoing, if the General Partner withdraws, a Majority Interest may, prior to such withdrawal, elect a successor General Partner. The Person so elected shall automatically become the successor general partner of the Operating Partnership. If no successor General Partner is elected, the Partnership shall be dissolved pursuant to Section 14.1. If a successor General Partner is elected, it shall be admitted immediately prior to the withdrawal of the General Partner and shall continue the business and operations of the Partnership without dissolution.

(b) The General Partner may be removed only upon the affirmative votes of owners of at least (i) 75% of the Percentage Interests, if such removal is not for cause or (ii) 60% of the Percentage Interests, if such removal is for cause. As used in this Article XIII, "cause" means that a court of competent jurisdiction has entered a final, non-appealable judgment finding the General Partner liable for actual fraud, gross negligence or willful and wanton misconduct. Any such action for removal of the General Partner must also provide for the election of a new General Partner. Such removal shall be effective immediately subsequent to the admission of the successor General Partner pursuant to Article XII. The removal of the General Partner shall also constitute the removal of the general partner of the Operating Partnership, as provided in the Operating Partnership Agreement. The Person elected as successor General Partner shall automatically become the successor general partner of the Operating Partnership. The right to remove the General Partner shall not exist or be exercised unless the Partnership has received an Opinion of Counsel that the removal of the General Partner and the selection of a successor General Partner will not result in the loss of limited liability of any Limited Partner or of the limited partner of the Operating Partnership or the cessation of treatment of the Partnership or the Operating Partnership as a partnership for federal income tax purposes.

(c) all necessary steps shall be taken to cancel this Agreement and the Certificate of Limited Partnership and to enter into a new partnership agreement and certificate of limited partnership, and the successor general partner may for this purpose exercise the powers of attorney granted the General Partner pursuant to Section 1.4;

provided that the right of a Majority Interest to select a successor general partner and to reconstitute and to continue the business of the Partnership shall not exist and may not be exercised unless the Partnership has received an Opinion of Counsel that (x) the exercise of the right would not result in the loss of limited liability of any Limited Partner and (y) neither the Partnership nor the reconstituted Partnership would cease to be treated as a partnership for federal income tax purposes upon the exercise of such right to continue.

14.3 *Liquidation.* Upon dissolution of the Partnership, unless the Partnership is continued under an election to reconstitute and continue the Partnership pursuant to Section 14.2, the General Partner, or, in the event the General Partner has been dissolved or removed, become bankrupt as defined in Section 14.1 or withdrawn from the Partnership, a liquidator or liquidating committee approved by a Majority Interest, shall be the Liquidator. The Liquidator (if other than the General Partner) shall be entitled to receive such compensation for its services as may be approved by a Majority Interest. The Liquidator shall agree not to resign at any time without 15 days' prior written notice and (if other than the General Partner) may be removed at any time, with or without cause, by notice of removal approved by a Majority Interest. Upon dissolution, removal or resignation of the Liquidator, a successor and substitute Liquidator (who shall have and succeed to all rights, powers and duties of the original Liquidator) shall within 30 days thereafter be approved by a Majority Interest. The right to approve a successor or substitute Liquidator in the manner provided herein shall be recurring and continuing for so long as the functions and services of the Liquidator are authorized to continue under the provisions hereof, and every reference herein to the Liquidator shall be deemed to refer also to any such successor or substitute Liquidator approved in the manner herein provided. Except as expressly provided in this Article XIV, the Liquidator approved in the manner provided herein shall have and may exercise, without further authorization or consent of any of the parties hereto, all of the powers conferred upon the General Partner under the terms of this Agreement (but subject to all of the applicable limitations, contractual and otherwise, upon the exercise of such powers, other than the limitation on sale set forth in Section 16.1(a)) to the extent necessary or desirable in the good faith judgment of the Liquidator to carry out the duties and functions of the Liquidator hereunder for and during such period of time as shall be reasonably required in the good faith judgment of the Liquidator to complete the winding up and liquidation of the Partnership as provided for herein. The General Partner or the Liquidator shall liquidate the assets of the Partnership, and apply and distribute the proceeds of such liquidation in the following order of priority, unless otherwise required by mandatory provisions of applicable law:

(a) the payment to creditors of the Partnership, including Partners, in order of priority provided by law; and the creation of a reserve of cash or other assets of the Partnership for contingent liabilities in an amount, if any, determined by the Liquidator to be appropriate for such purposes; and

(b) to the Partners in accordance with the positive balances in their respective Capital Accounts; provided that the General Partner shall contribute to the Partnership cash in an amount sufficient to restore to zero any negative balance in its Capital Account by the end of the taxable year of Liquidation or 90 days after the date of Liquidation, whichever is later.

14.4 *Distribution in Kind.* Notwithstanding the provisions of Section 14.3 which require the liquidation of the assets of the Partnership, but subject to the order of priorities set forth therein, if upon dissolution of the Partnership the General Partner or the Liquidator determines that an immediate sale of part or all of the Partnership's assets would be impractical or would cause undue loss to the Partners, the Liquidator may, in its absolute discretion, defer for a reasonable time the liquidation of any assets except those necessary to satisfy liabilities of the Partnership (other than those to Partners) and/or may, in its absolute discretion, distribute to the Partners, in lieu of cash, as tenants in common and in accordance with the provisions of Section 14.3(b), undivided interests in such Partnership assets as the General Partner or the Liquidator deems not suitable for liquidation. Any such distributions in kind shall be subject to such

ARTICLE XIV

DISSOLUTION AND LIQUIDATION

14.1 *Dissolution.* The Partnership shall not be dissolved by the admission of Substituted Limited Partners or by the admission of substituted or additional General Partners in accordance with the terms of this Agreement. Upon the removal, withdrawal or resignation of any General Partner, any remaining General Partner and any substituted General Partner shall continue the business of the Partnership. The Partnership shall dissolve, and its affairs shall be wound up, upon:

(a) the expiration of its term as provided in Section 1.5;

(b) the withdrawal or removal of the General Partner, or any other event that results in its ceasing to be the General Partner (other than by reason of a transfer pursuant to Section 11.2 or withdrawal or removal following selection by a Majority Interest of a successor pursuant to Section 13.1);

(c) an election to dissolve the Partnership by the General Partner that is approved by the affirmative vote of a Majority Interest; or

(d) the bankruptcy or the dissolution of the General Partner;

provided, however, that the Partnership shall not be dissolved upon an event described in Section 14.1(b) or (d) if within 90 days after such event, all Partners agree in writing to continue the business of the Partnership and to the appointment of a successor General Partner.

For purposes of this Section 14.1, bankruptcy of the General Partner shall be deemed to have occurred when (u) it commences a voluntary proceeding, or files an answer in any involuntary proceeding seeking liquidation, reorganization or other relief under any bankruptcy, insolvency or other similar law now or hereafter in effect, (v) it is adjudged a bankrupt or insolvent, or has entered against it a final and nonappealable order for relief under any bankruptcy, insolvency or similar law now or hereafter in effect, (w) it executes and delivers a general assignment for the benefit of its creditors, (x) it files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any proceeding of the nature described in clause (u) above, (y) it seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator for it or for all or any substantial part of its properties, or (z)(1) any proceeding of the nature described in clause (u) above has not been dismissed 120 days after the commencement thereof, (2) the appointment without its consent or acquiescence of a trustee, receiver or liquidator appointed pursuant to clause (y) above has not been vacated or stayed within 90 days of such appointment, or (3) such appointment is not vacated within 90 days after the expiration of any such stay.

14.2 *Continuation of the Business of the Partnership after Dissolution.* Upon dissolution of the Partnership in accordance with Section 14.1(b) or (d), and a failure of all Partners to agree to continue the business of the Partnership and appoint a successor General Partner as provided in Section 14.1, then within an additional 90 days, a Majority Interest may elect to reconstitute the Partnership and continue its business on the same terms and conditions set forth in this Agreement by forming a new partnership on terms identical to those set forth in this Agreement and having as a general partner a Person elected by a Majority Interest. Upon any such election by a Majority Interest, all Partners shall be bound thereby and shall be deemed to have consented thereto. Unless such an election is made within 180 days after dissolution, the Partnership shall conduct only activities necessary to wind up its affairs. If such an election is made within 180 days after dissolution, then:

(a) the reconstituted Partnership shall continue until the end of the term set forth in Section 1.5 unless earlier dissolved in accordance with this Article XIV;

(b) if the successor general partner is not the former General Partner, then the interest of the former General Partner shall be treated thenceforth as the interest of a limited partner and converted into Units in the manner provided in Section 13.2(b); and

(f) any amendment expressly permitted in this Agreement to be made by the General Partner acting alone; or

(g) any other amendments similar to the foregoing.

15.2 *Amendment Procedures.* Except as provided in Sections 15.1 and 15.3, all amendments to this Agreement shall be made in accordance with the following requirements. Amendments of this Agreement may be proposed by the General Partner or by Limited Partners owning 25% or more of the Units. In either case, the proposal shall contain the text of the proposed amendment. If an amendment is proposed, the General Partner shall seek the written approval of the requisite Percentage Interests or call a meeting of the Limited Partners to consider and vote on such proposed amendment. A proposed amendment shall be effective upon its approval by a Majority Interest unless a greater percentage is required by this Agreement. The General Partner shall notify all Partners upon final adoption of any proposed amendment.

15.3 *Amendment Requirements.*

(a) Notwithstanding the provisions of Sections 15.1 and 15.2, no provision of this Agreement which establishes a Percentage Interest required to take any action shall be amended, altered, changed, repealed or rescinded in any respect which would have the effect of reducing such voting requirement, unless such is approved by written consent or the affirmative vote of Partners whose aggregate Percentage Interests constitute not less than the voting requirement sought to be reduced. This Section 15.3(a) shall only be amended with the approval by written consent or affirmative vote of Partners whose aggregate Percentage Interests constitute at least 95% of the aggregate Percentage Interests of the Partners.

(b) Notwithstanding the provisions of Sections 15.1 and 15.2, no amendment to this Agreement may (i) enlarge the obligations of any Partner, (ii) modify the fees and compensation payable to the General Partner or any of its Affiliates by the Partnership or the Operating Partnership, (iii) change Section 14.1(a) or (c), (iv) restrict in any way any action by or rights of the General Partner as set forth in this Agreement or (v) except as set forth in Section 14.1(c), give any Person the right to dissolve the Partnership.

15.4 *Meetings.* All acts of Limited Partners to be taken hereunder shall be taken in the manner provided in this Article XV. Meetings of the Limited Partners may be called by the General Partner or by Limited Partners owning at least 20% of the aggregate Percentage Interests; provided, however, that the right of Limited Partners to call a meeting shall not be deemed a right to propose amendments to this Agreement. Any Limited Partner calling a meeting shall specify the number of Units as to which the Limited Partner is exercising the right to call a meeting and only those specified Units shall be counted for the purpose of determining whether the required 20% standard of the preceding sentence has been met. Limited Partners shall call a meeting by delivering to the General Partner one or more calls in writing stating that the signing Limited Partners wish to call a meeting and indicating the general or specific purposes for which the meeting is to be called. Within 60 days after receipt of such a call from Limited Partners or within such greater time as may be reasonably necessary for the Partnership to comply with any statutes, rules, regulations, listing agreements or similar requirements governing the holding of a meeting or the solicitation of proxies for use at such a meeting, the General Partner shall send a notice of the meeting to the Limited Partners either directly or indirectly through the Transfer Agent. A meeting shall be held at a time and place determined by the General Partner on a date not more than 60 days after the mailing of notice of the meeting. Limited Partners shall not vote on matters that would cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to subject the Limited Partners to unlimited liability.

15.5 *Notice of a Meeting.* Notice of a meeting called pursuant to Section 15.4 shall be given to the Record Holders in writing either personally or by mail or other means of written communication in accordance with Section 18.1. The notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication.

15.6 *Record Date.* For purposes of determining the Limited Partners entitled to notice of or to vote at a meeting of the Limited Partners or to give approvals without a meeting as provided in Section 15.11, the General Partner may set a Record Date, which shall not be less than ten days nor more than 60 days

conditions relating to the disposition and management of such properties as the General Partner or the Liquidator deems reasonable and equitable and to any agreements governing the operating of such properties at such time. The General Partner or the Liquidator shall determine the fair market value of any property distributed in kind using such reasonable method of valuation as it may adopt.

14.5 *Cancellation of Certificate of Limited Partnership.* Upon the completion of the distribution of Partnership property as provided in Sections 14.3 and 14.4, the Partnership shall be terminated, and the Certificate of Limited Partnership and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of Delaware shall be cancelled and such other actions as may be necessary to terminate the Partnership shall be taken.

14.6 *Reasonable Time for Winding Up.* A reasonable time shall be allowed for the orderly winding up of the business and affairs of the Partnership and the liquidation of its assets pursuant to Section 14.3 in order to minimize any losses otherwise attendant upon such winding up.

14.7 *Return of Capital.* The General Partner shall not be personally liable for the return of the Capital Contributions of the Limited Partners, or any portion thereof, it being expressly understood that any such return shall be made solely from Partnership assets.

14.8 *No Capital Account Restoration.* No Limited Partner shall have any obligation to restore any negative balance in its Capital Account upon liquidation of the Partnership.

14.9 *Waiver of Partition.* Each Partner hereby waives any right to partition of the Partnership property.

ARTICLE XV

AMENDMENT OF PARTNERSHIP AGREEMENT; MEETINGS; RECORD DATE

15.1 *Amendment to be Adopted Solely by General Partner.* Each Limited Partner agrees that the General Partner (pursuant to its powers of attorney from the Partners), without the approval of any Limited Partner or Assignee, may amend any provision of this Agreement, and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Partnership or the location of the principal place of business of the Partnership;

(b) admission, substitution or termination of Partners in accordance with this Agreement;

(c) a change that the General Partner in its sole discretion has determined to be reasonable and necessary or appropriate to qualify or continue the qualification of the Partnership as a limited partnership or a partnership in which the Limited Partners have limited liability under the laws of any state or that is necessary or advisable in the opinion of the General Partner to ensure that the Partnership will continue to be treated as a partnership for federal income tax purposes, including, without limitation, conversion of the Partnership into a real estate investment trust;

(d) a change (i) that in the sole discretion of the General Partner does not adversely affect the Limited Partners in any material respect, (ii) that is necessary or desirable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute or that is necessary or desirable to facilitate the trading of the Units (including, without limitation, the division of Outstanding Units into different classes in order to facilitate uniformity of tax consequences within such classes of Units) or comply with any rule, regulation, guideline or requirement of any securities exchange on which the Units are or will be listed for trading, compliance with any of which the General Partner deems to be in the best interests of the Partnership and the Limited Partners, or (iii) that is required or contemplated by this Agreement;

(e) an amendment that is necessary, in the opinion of counsel to the Partnership, to prevent the Partnership or the General Partner or its directors or officers from in any manner being subjected to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, whether or not substantially similar to plan asset regulations currently applied or proposed by the United States Department of Labor;

15.11 *Action Without a Meeting.* Any action that may be taken at a meeting of the Limited Partners may be taken without a meeting if an approval in writing setting forth the action so taken is signed by Partners owning not less than the minimum Percentage Interests that would be necessary to authorize or take such action at a meeting at which all the Partners were present and voted. Prompt notice of the taking of action without a meeting shall be given to the Limited Partners who have not approved in writing. The General Partner may specify that any written ballot submitted to Limited Partners for the purpose of taking any action without a meeting shall be returned to the Partnership within the time, not less than 20 days, specified by the General Partner. If a ballot returned to the Partnership does not vote all of the Units held by the Limited Partner, the Partnership shall be deemed to have failed to receive a ballot for the Units which were not voted. If approval of the taking of any action by the Limited Partners is solicited by any Person other than by or on behalf of the General Partner, the written approvals shall have no force and effect unless and until (a) they are deposited with the Partnership in care of the General Partner, (b) approvals sufficient to take the action proposed are dated as of a date not more than 90 days prior to the date sufficient approvals are deposited with the Partnership, and (c) an Opinion of Counsel is delivered to the General Partner to the effect that the exercise of such right and the action proposed to be taken with respect to any particular matter (i) will not cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to subject the Limited Partners to unlimited liability, (ii) will not jeopardize the status of the Partnership as a partnership under applicable tax laws and regulations, and (iii) is otherwise permissible under the state statutes then governing the rights, duties and liabilities of the Partnership and the Partners.

15.12 *Voting and Other Rights.*

(a) Only those Record Holders of Units on the Record Date set pursuant to Section 15.6 shall be entitled to notice of, and, subject to Section 12.2(a), to vote at, a meeting of Limited Partners or to act with respect to matters as to which approvals are solicited.

(b) With respect to Units that are held for a Person's account by another Person (such as a broker, dealer, bank, trust company or clearing corporation, or an agent of any of the foregoing), in whose name such Units are registered, such broker, dealer or other agent shall, in exercising the voting rights in respect of such Units on any matter, and unless the arrangement between such Persons provides otherwise, vote such Units in favor of and at the direction of, the Person on whose behalf such broker, dealer or other agent is holding such Units, and the Partnership shall be entitled to assume it is so acting without further inquiry. The provisions of this Section 15.12(b) (as well as all other provisions of this Agreement) are subject to the provisions of Section 10.4.

(c) A General Partner that is also a Limited Partner may vote its Percentage Interests, including those represented by Units, on any matter submitted to the Limited Partners for consideration in such manner as it in its sole discretion shall determine.

ARTICLE XVI

PROHIBITIONS AND LIMITATIONS

16.1 *General Prohibitions.* Without the prior approval of a Majority Interest, the General Partner shall not:

(a) sell or exchange all or substantially all of the assets of the Partnership in a single transaction or a series of related transactions or cause the Partnership to merge with or into any entity (other than the Operating Partnership); or

(b) acting on behalf of the Partnership:

(i) approve of amendments to the Operating Partnership Agreement that would adversely affect the Partnership as the limited partner of the Operating Partnership in any material respect;

(ii) except as expressly permitted in Section 11.2(c), elect a successor general partner of the Operating Partnership; or

(iii) approve of the sale of all or substantially all of the assets of the Operating Partnership in a single transaction, a series of related transactions or pursuant to a plan of liquidation.

before the date of the meeting (unless such requirement conflicts with any rule, regulation, guideline or requirement of any stock exchange on which the Units are listed for trading, in which case the rule, regulation, guideline or requirement of such stock exchange shall govern).

15.7 *Adjournment.* When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting and a new Record Date need not be fixed, if the time and place thereof are announced at the meeting at which the adjournment is taken, unless such adjournment shall be for more than 45 days. At the adjourned meeting, the Partnership may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 45 days or if a new Record Date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in accordance with this Article XV.

15.8 *Waiver of Notice; Consent to Meeting; Approval of Minutes.* The transactions of any meeting of Limited Partners, however called and noticed, and whenever held, are as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the Limited Partners entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. All waivers, consents and approvals shall be filed with the Partnership records or made a part of the minutes of the meeting. Attendance of a Limited Partner at a meeting shall constitute a waiver of notice of the meeting, except when the Limited Partner objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened; and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required to be included in the notice of the meeting, but not so included, if the objection is expressly made at the meeting.

15.9 *Quorum.* A Majority Interest represented in person or by proxy shall constitute a quorum at a meeting of Limited Partners. Notwithstanding anything elsewhere provided in this Agreement to the contrary, the Limited Partners shall be entitled to vote on, consent to or approve of matters only as provided in Sections 11.2, 13.1, 14.1, 14.2, 14.3, 15.2, 15.3, 15.4, 15.11 and 16.1 and as submitted to them by the General Partner. At any meeting of the Limited Partners duly called and held in accordance with this Agreement at which a quorum is present, the act of Limited Partners whose Percentage Interests represent a majority of the Percentage Interests entitled to vote and be present in person or by proxy at such meeting shall be deemed to constitute the act of all Limited Partners, unless a higher percentage is required with respect to such action under the provisions of this Agreement, in which case the act of the Limited Partners owning such higher percentage shall be required. The Limited Partners present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Limited Partners to leave less than a quorum, if any action taken (other than adjournment) is approved by the requisite percentage of interests of Limited Partners specified in this Agreement. In the absence of a quorum, any meeting of Limited Partners may be adjourned from time to time by the affirmative vote of a majority of the Percentage Interests represented either in person or by proxy, but no other business may be transacted, except as provided in Section 15.7.

15.10 *Conduct of Meeting.* The General Partner shall have full power and authority concerning the manner of conducting any meeting of the Limited Partners or solicitation of approvals in writing, including, without limitation, the determination of Persons entitled to vote, the existence of a quorum, the satisfaction of the requirements of Section 15.4, the conduct of voting, the validity and effect of any proxies, and the determination of any controversies, votes or challenges arising in connection with or during the meeting or voting. The General Partner shall designate a Person to serve as chairman of any meeting and shall further designate a Person to take the minutes of any meeting, in either case including, without limitation, a Partner or a director or officer of the General Partner. All minutes shall be kept with the records of the Partnership maintained by the General Partner. The General Partner may make such other regulations consistent with applicable law and this Agreement as it may deem advisable concerning the conduct of any meeting of the Limited Partners or solicitation of approvals in writing, including regulations in regard to the appointment of proxies, the appointment and duties of inspectors of votes and approvals, the submission and examination of proxies and other evidence of the right to vote, and the revocation of approvals in writing.

or report or to make such payment shall be deemed conclusively to have been fully satisfied. Upon mailing of such notice, payment or report to the Record Holder of such Unit at his address as shown on the records of the Transfer Agent or as otherwise shown on the records of the Partnership, regardless of any claim of any Person who may have an interest in such Unit or the Partnership Interest of the General Partner by reason of an assignment or otherwise. An affidavit or certificate of mailing of any notice, payment or report in accordance with the provisions of this Section 18.1 executed by the General Partner, the Transfer Agent, the registrar of Units or the mailing organization shall be prima facie evidence of the giving or sending of such notice, payment or report. If any notice, payment or report addressed to a Record Holder at the address of such Record Holder appearing on the books of the Transfer Agent or the Partnership is returned by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver it, such notice, payment or report and any subsequent notices, payments and reports shall be deemed to have been duly given or sent without further mailing (until such time as such Record Holder or another Person notifies the Transfer Agent or the Partnership of a change in his address) if they are available for the Limited Partner or Assignee at the principal office of the Partnership for a period of one year from the date of the giving or sending of such notice, payment or report to the other Limited Partners and Assignees. Any notice to the Partnership shall be deemed given if received by the General Partner at the principal office of the Partnership designated pursuant to Section 1.3. The Partnership and the General Partner may rely and shall be protected in relying on any notice or other document from a Partner or other Person if believed by them to be genuine.

18.2 *Titles and Captions.* All article or section titles or captions in this Agreement are for convenience only. They shall not be deemed part of this Agreement and in no way define, limit, extend or describe the scope or intent of any provisions hereof. Except as specifically provided otherwise, references to "Articles" and "Sections" are to Articles and Sections of this Agreement.

18.3 *Pronouns and Plurals.* Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

18.4 *Further Action.* The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

18.5 *Binding Effect.* This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

18.6 *Integration.* This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

18.7 *Creditors.* None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Partnership.

18.8 *Waiver.* No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach or any other covenant, duty, agreement or condition.

18.9 *Counterparts.* This Agreement may be executed in counterparts, all of which together shall constitute one agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement immediately upon affixing its signature hereto or, in the case of a Person acquiring a Unit, upon executing and delivering a Transfer Application as herein described, independently of the signature of any other party.

18.10 *Applicable Law.* This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law.

ARTICLE XVII

Right to Acquire Units

17.1 *Right to Acquire Units.*

(a) Notwithstanding the provisions of Section 13.1(a) or any other provision of this Agreement, in the event less than 10% of the total Percentage Interests are held by Persons other than the General Partner and its Affiliates, the General Partner shall then have the right, which right it may assign and transfer to the Partnership or any Affiliate of the General Partner, exercisable in its sole discretion, to purchase all, but not less than all, of the Outstanding Units held by Persons other than the General Partner and its Affiliates, at the Purchase Price.

(b) In the event the General Partner, any Affiliate of the General Partner or the Partnership elects to exercise such right to purchase Units pursuant to Section 17.1(a), the General Partner shall deliver to the Transfer Agent written notice of such election to purchase (hereinafter in this Section 17.1 called the "Notice of Election to Purchase") and shall cause the Transfer Agent to mail a copy of such Notice of Election to Purchase to the Record Holders of Units at least 10, but not more than 60 days prior to the Purchase Date. Such Notice of Election to Purchase shall also be published in daily newspapers of general circulation printed in the English language and published in the Borough of Manhattan, New York. The Notice of Election to Purchase shall specify the Purchase Date and the Purchase Price and state that the General Partner, its Affiliate or the Partnership, as the case may be, elects to purchase such Units, upon surrender thereof in exchange for payment, at such office or offices of the Transfer Agent as the Transfer Agent may specify, or as may be required by any National Securities Exchange on which the Units are listed or admitted to trading. Any such Notice of Election to Purchase mailed to a Record Holder of Units at his address as reflected in the records of the Transfer Agent shall be conclusively presumed to have been given whether or not the owner receives such notice. On or prior to the Purchase Date, the General Partner, its Affiliate or the Partnership, as the case may be, shall deposit with the Transfer Agent cash in an amount equal to the Purchase Funds. If the Notice of Election to Purchase shall have been duly given as aforesaid at least ten days prior to the Purchase Date, and if on or prior to the Purchase Date the Purchase Funds shall have been deposited with the Transfer Agent in trust for the benefit of the holders of Units subject to purchase as provided herein, then from and after the Purchase Date, notwithstanding that any Certificate for Units, shall not have been surrendered for purchase, all rights of the holders of such Units (including, without limitation, any rights pursuant to Articles IV, V and XIV) shall thereupon cease, except the right to receive the Purchase Price therefor, without interest, upon surrender to the Transfer Agent of the Certificates representing such Units shall thereupon be deemed to be transferred to the General Partner, its Affiliate or the Partnership, as the case may be, on the record books of the Transfer Agent and the Partnership, and the General Partner or any Affiliate of the General Partner, or the Partnership, as the case may be, shall be deemed to be the owner of all such Units from and after the Purchase Date and shall have all rights as the owner of such Units (including, without limitation, all rights as owner of such Units pursuant to Articles IV, V and XIV).

(c) At any time from and after the Purchase Date, a holder of an Outstanding Unit subject to purchase as provided in this Section 17.1 may surrender his Certificate evidencing such Unit to the Transfer Agent in exchange for payment of the Purchase Price therefor, without interest thereon.

ARTICLE XVIII

General Provisions

18.1 *Addresses and Notices.* Any notice, demand, request or report required or permitted to be given or made to a Partner under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class mail or by other means of written communication to the Partner at the address described below. Any notice, payment or report to be given or sent to a Partner hereunder shall be deemed conclusively to have been given or sent, and the obligation to give such notice

18.11 *Invalidity of Provisions.* If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

Date _____

GENERAL PARTNER:

Red Lion Properties, Inc.
4001 Main Street
Vancouver, Washington 98663

By _____

ORGANIZATIONAL LIMITED PARTNER:

H. Raymond Bingham
c/o Red Lion Properties, Inc.
4001 Main Street
Vancouver, Washington 98663

By _____

LIMITED PARTNERS:

All Limited Partners now and hereafter admitted as limited partners of the Partnership, pursuant to Powers of Attorney and authorizations now and hereafter executed in favor of, and granted and delivered to, the General Partner

By: Red Lion Properties, Inc.

By _____