RED LION HOTELS & INNS

March 21, 1995

VIA FACSIMILE & US MAIL

Supplement to AOR 1995-06

Mr. Jonathan Levin
Office of General Counsel
Federal Elections Commission
999 E Street NW
Washington, DC 20463

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RE: Red Lion Inns, LP

Dear Mr. Levin:

We are responding to your questions regarding assignees or substituted limited partners as well as units held in street name for Red Lion Inns, LP (Red Lion). You asked us to address these investors in terms of their status as limited partners.

As discussed on page 66 of the Prospectus (copy attached) an assignee of record is treated as a partner of Red Lion for federal income tax purposes from the date he or she becomes the record owner, whether or not he or she is admitted as a substituted limited partner. In addition, an investor whose units are held in "street name" should also be treated as a partner for federal income tax purposes, unless the units are held in a margin account and are loaned to a "short seller." For your information, "street name" units are units where a nominee holder such as a brokerage firm or trust company, holds the unit certificates on behalf of a beneficial owner.

Article XII of the "Agreement of Limited Partnership," section 12.2 (copy attached) defines and discusses substituted limited partners and "assignees." Note that allocations, distributions and voting rights for assignees are discussed in this section and the interest held by an assignee is equivalent to that of a limited partner.

If you have any further questions, please advise.

Sincerely,

RED LION HOTELS & INNS

Gregory A. Damico
Vice President-Corporate Taxes

cc: Beth Ugoretz

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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 UNIT-HOLDERS 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

(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,

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.