The 2011 Hospitality Law Conference

February 9-11, 2011

Introduction to a Hotel's Financial Statements for Attorneys

Presented By:

Al Gallo, Senior Vice President & Chief Financial Officer for Redstone Hospitality
John Merkin, Principal for JKM Advisory
Anthony Campanelli, Senior Manager, Forensic & Dispute Services for Deloitte Financial Advisory Services LLP

Hotel Co. LLC

Independent Auditors' Report

Financial Statements
Year Ended December 31, 2009

HOTEL CO. LLC

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Members of Hotel CO. LLC:

We have audited the accompanying balance sheets of Hotel Co. LLC (the "Company") as of December 31, 2009, and the related statements of operations, changes in shareholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

July 22, 2010

HOTEL CO. LLC

BALANCE SHEET
DECEMBER 31, 2009

ASSETS

Cash	$ 4,535,992
Restricted cash	385,586
Accounts receivable, net of allowance of $44,039	946,692
Inventory	1,588,788
Prepaid expenses and other current assets	1,574,402
Total current assets	9,031,460
Property, plant, and equipment, less accumulated depreciation of $18,903,613	55,109,294
Other assets	1,185,684
	$ 65,326,438

LIABILITIES AND SHAREHOLDERS EQUITY

Accounts payable	$ 862,345
Accrued expenses	721,381
Current portion of long-term debt	792,690
Deferred revenue	2,073,512
Total current liabilities	4,449,928
Long-term debt	40,609,263
Total liabilities	45,059,191
SHAREHOLDERS EQUITY	
COMMON SHARES	10,000
ADDITIONAL PAID IN CAPITAL	90,000
RETAINED EARNINGS	20,167,247
Total shareholders equity	20,267,247
Commitments and contigencies (see note 7)	
	$ 65,326,438

HOTEL CO. LLC

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2009

REVENUE	$ 34,288,681
EXPENSES:	
Depreciation and amortization	2,201,128
Operating expenses	14,916,406
Selling, general, and administrative	12,440,438
Total expenses	29,557,972
OPERATING INCOME	4,730,709
Interest expense-net	1,256,934
NET INCOME	$ 3,473,775

See notes to financial statements.

HOTEL CO. LLC

STATEMENT OF SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2009

	COMMON STOCK	PAID IN CAPITAL	RETAINED EARNINGS	TOTAL
BALANCE, DECEMBER 31, 2008	$ 10,000	$ 90,000	$ 17,693,472	$ 17,793,472
ISSUANCE COMMON STOCK	-	-	-	
DIVIDENDS PAID	-	-	(100,000)	(100,000)
NET INCOME	-	-	3,473,775	3,473,775
BALANCE, DECEMBER 31, 2009	$ 10,000	$ 90,000	$ 20,167,247	$ 20,267,247

See notes to financial statements.

HOTEL CO. LLC

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 3,473,775
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and Amortization	2,201,128
Provision for doubtful accounts	46,021
Changes in operating assets and liabilities:	
Decrease in accounts receivable	715,013
Increase in inventory	(38,026)
Increase in prepaid expenses and other current assets	(943,840)
Increase in other assets	(1,365,177)
Decrease in accounts payable	(780,753)
Increase in deferred revenue	1,030,375
Increase in accrued expenses	16,402
Net cash provided by operating activities	4,354,918
CASH FLOWS FROM INVESTING ACTIVITIES:	
Increase in restricted cash	(385,586)
Capital expenditures	(1,211,062)
Net cash used by investing activities	(1,596,648)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from long-term debt	41,400,000
Payments of common stock dividends	(100,000)
Payments of long-term debt	(40,357,845)
Net cash provided by financing activities	942,155
NET INCREASE IN CASH	3,700,425
CASH, BEGINNING OF YEAR	835,567
CASH, END OF YEAR	$ 4,535,992

See notes to financial statements.

HOTEL CO. LLC

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

(a) Business

Hotel Co. LLC (the "Company") owns and operates the St. Sebastian Hotel in New York.

The Hotel consists of 350 rooms, including 200 suites and 150 deluxe rooms, three restaurants, a ballroom, six meeting rooms, an indoor/outdoor swimming pool, hot tub, and a health club.

(b) Basis of presentation

The accompanying financial statements have been prepared under the accounting principles generally accepted in the United States of America ("GAAP"). In June 2009, the FASB issued the FASB Accounting Standards Codification ("Codification"). The Codification becomes the single source of all authoritative GAAP. The Codification does not change GAAP and did not have an effect on the Company's financial statements

(c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Fair Value

In note 4 to these financial statements, the Company discloses the estimated fair value of our long-term debt based on the quoted market prices for similar issues for debt of similar remaining maturities. The carrying values of cash and cash equivalents, accounts receivable, due from/to related parties, accounts payable, accrued expenses, accrued interest and current maturities of long-term debt approximate fair value due to the short-term nature of these items and their close proximity to maturity.

(d) Revenue

Represents all receipts from operations of the Hotel, including the sale of rooms, provision of food and beverages, as well as other miscellaneous operating revenue. All revenues are recognized when the respective services are performed. Deferred revenue consisting of deposits paid in advance are recognized as revenue when the services are performed

(e) Interest Expense – net

Interest expense, net includes interest income of $1,331,646.

(f) Restricted Cash

In accordance with the Company's loan agreement (see note 4), certain amounts of cash are restricted as to their use. These funds are restricted primarily for the purchase of furniture, fixtures and equipment.

(g) Inventory

Inventory consists of wine, food, beverages, certain retail goods and fine china, silverware, glassware, and linens. Inventory is valued at the lower of cost or market under the first-in, first-out method.

(h) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist mainly of prepayments for commissions, advertising, insurance, and other operating expenses.

(i) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of significant renewals and betterments is capitalized and depreciated, while expenditures for normal maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Useful Lives
Building	60 years
Furniture, fixtures and equipment	5-20 years
Equipment under capital lease and leashold improvements	Lesser of lease term or economic life

(i) Other Assets

Other assets consist principally of unamortized loan issuance costs that are amortized over the life of the loan.

(j) Impairment of Long-lived Assets

The Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In the event that impairment occurs, the fair value of the related assets is estimated, and the Company records a charge to income calculated by comparing the assets' carrying value to the estimated fair value. No long-lived assets were impaired in 2009.

(k) Income Taxes

Pursuant to U.S. Treasury Regulations, the Company has elected to be characterized as a disregarded entity for U.S. federal and state income tax purposes. Therefore, the Company is not subject to U.S. federal or state income tax. The ultimate corporate members will be liable for any federal or state income tax associated with the income generated by the Company.

2. PROPERTY, PLANT, AND EQUIPMENT-NET

At December 31, 2009, property, plant, and equipment-net consisted of the following:

Land	$ 9,000,000
Building	32,680,759
Furniture and fixtures	15,592,877
Machinery and equipment	11,341,706
Fine Arts	3,000,000
Computers	1,583,336
Capital leases	814,229
	74,012,907
Less: accumulated depreciation	18,903,613
	$ 55,109,294

Accumulated depreciation relating to equipment under capital lease amounted to $298,050 for the year ended December 31, 2009.

3. ACCRUED EXPENSES

At December 31, 2009, accrued expenses consisted of the following:

Payroll and payroll related	$ 489,645
Vacation and holiday pay	104,577
Utilities	61,771
Other	65,388
	$ 721,381

4. LONG-TERM DEBT

At December 31, 2009, long-term debt consists of the following:

Island Bank variable rate loan	$ 40,950,080
Capital Leases	451,873
	$ 41,401,953
Less: current portion	792,690
	$ 40,609,263

Island Bank variable rate loan – On April 18, 2009, the Company entered into a variable rate loan for $41,400,000, of which $40,950,080 is outstanding at December 31, 2009. The loan is secured by a first mortgage on the assets of the Company. Interest is payable monthly at a rate of Libor + 1.40%. The interest rate on this loan at December 31, 2009 was 2.25%. The loan matures on April 18, 2013. The maturity of the loans may be extended at the request of the Company and at the discretion of the bank for three twelve-month periods. During 2009, the Company recorded $1,309,310 in interest expense.

The following is a summary of the aggregate maturity of long-term debt, excluding obligations under capital leases at December 31, 2009:

Years Ending December 31,	
2010	$ 721,146
2011	40,228,934
	$ 40,950,080

The following is a schedule of future minimum lease payments under capital leases together with the present value of the minimum lease payments at December 31:

Years Ending December 31,	
2010	$ 108,854
2011	108,854
2012	108,854
2013	108,854
2014	78,146
2015	50,543
Minimum Lease Payments	564,105
Less: Amount of interest contained in above payments	112,232
Present Value of minimum lease payments	451,873
Less: Current Portion	71,544
	$ 380,329

The Company estimates that the fair value of the loans to be $37,010,973 at December 31, 2009 based on quoted market prices for similar issues of debt with similar remaining maturities.

5. EMPLOYEE BENEFIT PLANS

The Company's nonunion employees are eligible for participation in a defined contribution plan after completion of one year of service. During 2009, the Company contributed approximately $144,607 to the plan.

6. MANAGEMENT AGREEMENT

The Company contracted with Luxury Hotels of the Americas to operate and manage the St. Sebastian under a management agreement as of January 1, 2009 (the "Management Agreement"). The Management Agreement provides for a base management fee and additional fees for other services. During 2009, the Hotel was charged with a management fee from Luxury Hotels of North America of $2,147,702, which is included in selling, general, and administrative expenses.

7. COMMITMENTS & CONTIGENCIES

In the normal course of business, the Company is involved in legal proceedings in which damages and other remedies are sought. Management does not expect that any contractual obligations, legal proceedings, or any other contingent obligations incurred in the normal course of business will have a material adverse effect on the Company's financial statements.

8 SUBSEQUENT EVENTS

On April 15, 2009, Hotel LLC acquired a 90% interest in the Hotel Del Capri, a 350 room luxury hotel in Rio de Janeiro, Brazil for $38,400,000. On July 1, 2010, the Company announced that it has begun an internal investigation into potential payments made to government officials in order to secure certain licensing permits made by the former management of the Hotel Del Capri prior to the acquisition by the Company. The Company is in the process of updating its policy on compliance with the Foreign Corrupt Practices Act.

* * * * * *