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## ■ **Driving Growth with Strategic Initiatives**

- Diversified Hospitality Revenue Initiatives up 7.6% (per room) with Expanded Margins
  - Revenue Up: Hotel Services, Advertising Services and System Sales & Related
  - Margins Higher: Improvement Across All Product Lines
  - Growth Initiatives Now Represent 45% of Total Revenue
- Envision Successfully Launched During Quarter
  - “Cloud Connected” High-Definition Interactive TV Platform
  - Initial Installation at Hyatt Regency O’Hare

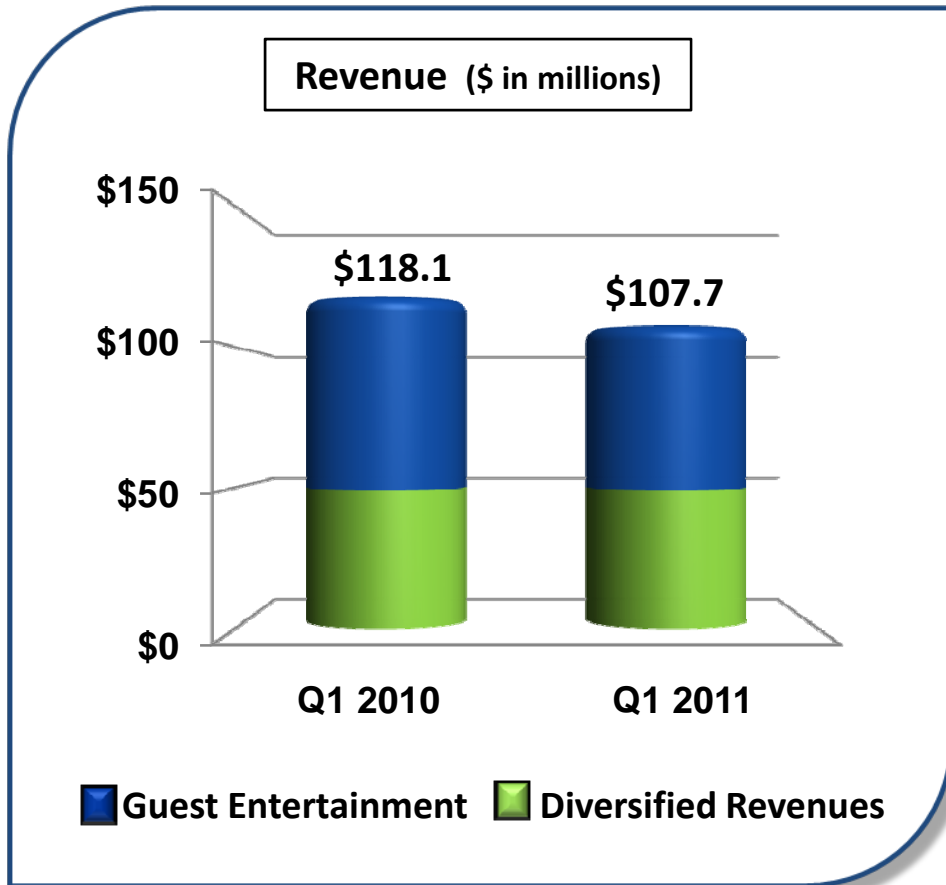
## ■ **Strengthened Balance Sheet**

- Leverage Ratio Now at 3.31x (Net Debt)
- Bank Amendment Increased Covenant to 4.0x
- Greater Ability to Invest in Growth

## ■ **Improved Per Share Performance by 47%**

- Net Loss per Common Share Down to (\$.09)

# LodgeNet® Further Revenue Diversification



## Growth Initiatives Generate \$50 Million

45% of Total Revenue

Increased Revenue from:

- Advertising +8%
- Professional Solutions +24%

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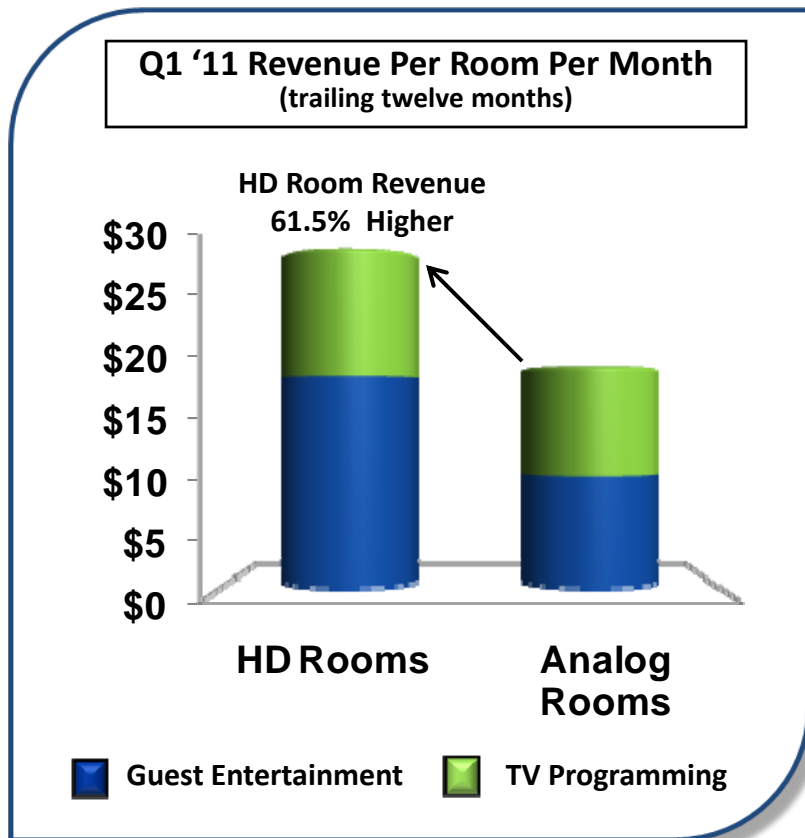
Total Revenue Down 8.7%



# LodgeNet Q1 Revenue Per Room Comparison

	Q1 '11	Q1 '10	Change	
			Q1 '11 vs Q1 '10	
<b>Hospitality Revenue</b>				
Guest Entertainment	\$ 11.79	\$ 12.99	\$ (1.20)	-9.2%
Hotel Services	6.93	6.48	0.45	6.9%
System Sales and Related	1.94	1.80	0.14	7.8%
Advertising Services	0.51	0.44	0.07	15.9%
<b>Total Revenue per Room</b>	<b>\$ 21.17</b>	<b>\$ 21.71</b>	<b>\$ (0.54)</b>	<b>-2.5%</b>
<b>Excluding Guest Entertainment</b>	<b>\$ 9.38</b>	<b>\$ 8.72</b>	<b>\$ 0.66</b>	<b>7.6%</b>

- **Diversified Revenues** – Up 7.6%
  - Growth in Strategic Initiatives Offset 55% of the Decline in Guest Entertainment per Room
- **Hotel Services** – Expanding HD Free-To-Guest Room Base
- **Advertising Services** – Continued Success of Channel Carriage Program & Advertising on Interactive Platform
- **Guest Entertainment** – Top 5 Movies Generated 40.4% Less Revenue vs Q1 '10
  - Rev/Rm impact \$(0.72) per room vs. the prior year



➤ **HD Rooms = 61.5% Higher Revenue per Month vs. Analog Rooms**

- 53% More Guest Entertainment
- 78% More TV Programming

➤ **High Definition Revenue Lift**  
- Meeting Traveler's Expectations

➤ **Solid Return on Capital Investment**

- \$175 - \$225 Investment per Room
- Capital Returned within 18 to 24 Months
- New 5-7 Year Contracts Upon Signing / Renewal

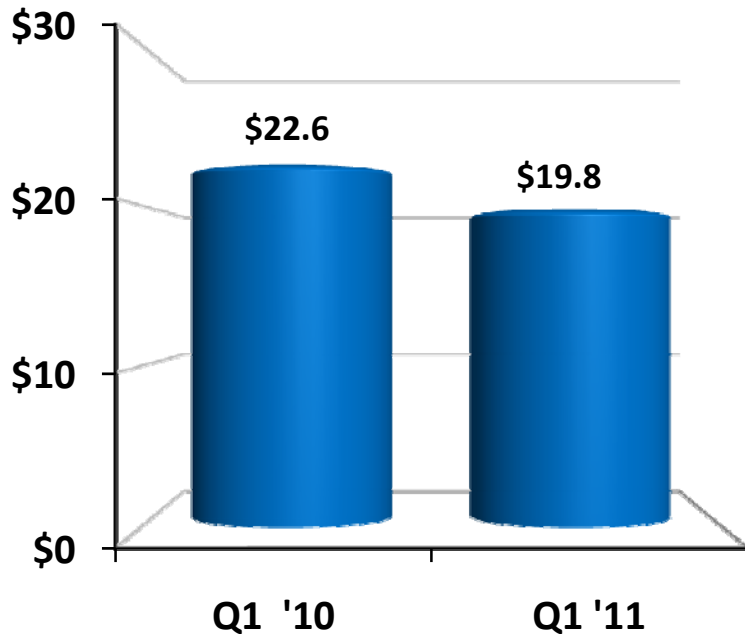
**HD Systems Now in 273,000 Rooms (17% of Room Base)**

Significant Revenue Opportunity as HD Penetration Increases

	<u>Q1 '11</u>	<u>Q1 '10</u>	<u>ppt Change</u>
Guest Entertainment	61.1%	60.0%	1.1%
Hotel Services	16.9%	13.8%	3.1%
System Sales & Related	34.9%	32.5%	2.4%
Advertising Services	48.6%	40.4%	8.2%
Healthcare	51.3%	47.3%	4.0%
<b>Total Gross Margin</b>	<b>44.0%</b>	<b>43.6%</b>	<b>0.4%</b>

- **Strong Gross Margin Performance Across All Service Lines**
- **Guest Entertainment** – Improved by Lower Hotel Commissions
- **Advertising Services** – Revenue Growth With Reduced Cost Structure

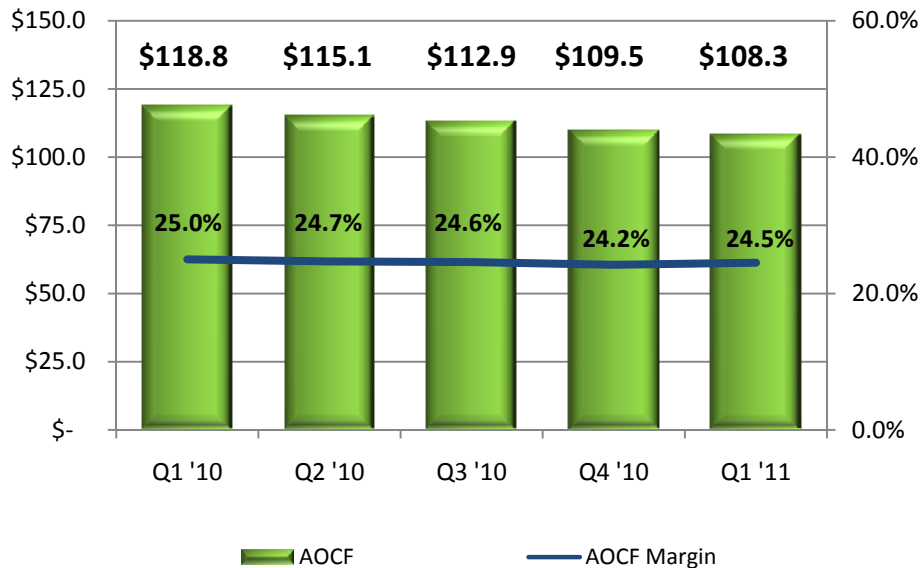
Operating Expenses (\$ in millions)



### Disciplined Expense Control

- Down 12.7% from Q1 '10
- Operating Expenses Expected to Continue Below 2010 Levels
- Invested in New Product Development:
  - Envision Platform
  - Interactive Apps

**Adjusted Operating Cash Flow**  
(Trailing Twelve Months, \$ in millions)

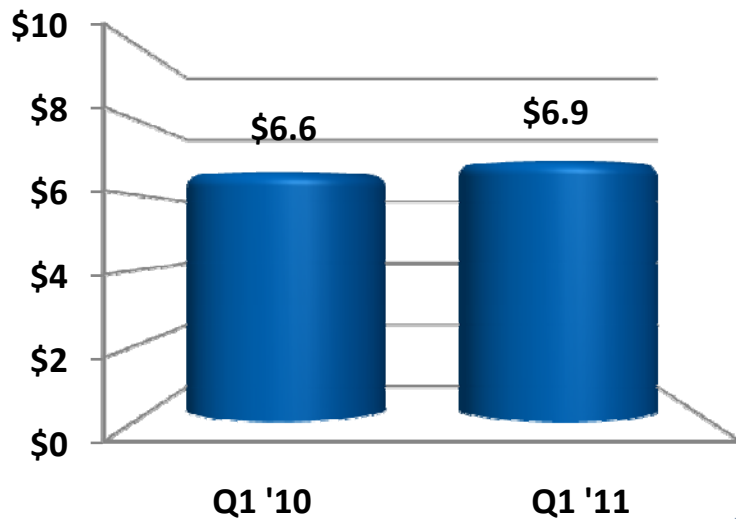


**Maintaining High Operating Margins**

- Gross Margins Improved to 44.0%
- Operating Expenses Reduced vs Q1 2010
- Q1 AOCF Margin of 25.9%  
- up 120bps vs last year

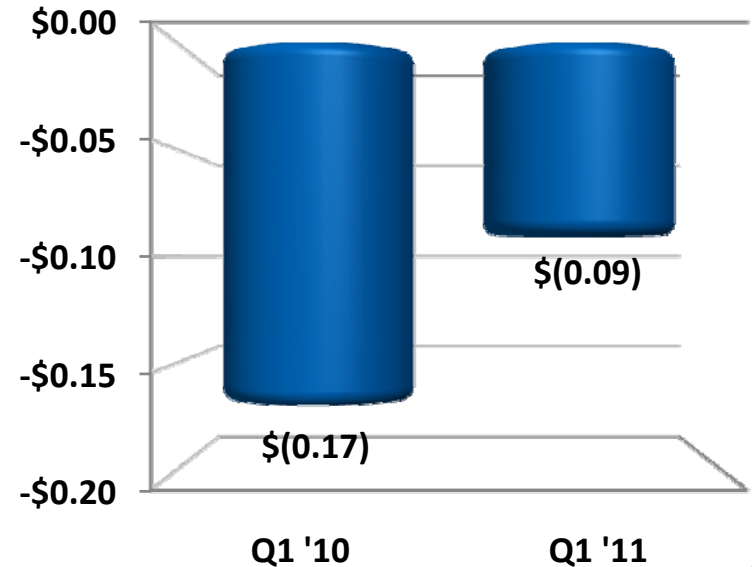
\* Adjusted Operating Cash Flow Definition - see slide 17

**Operating Income**  
(\$ in millions)

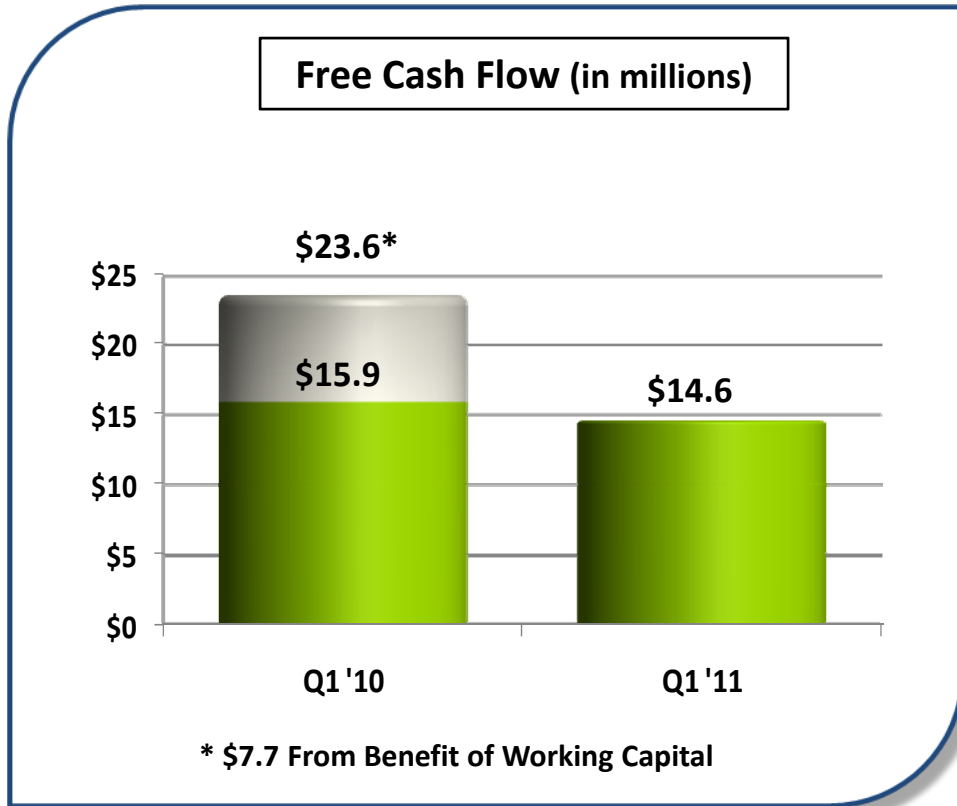


- Operating Income Up 4.0%  
- Lower Depreciation & Amortization

**Net Loss Per Common Share**  
(\$ in millions)



- Net Loss Per Share Improved 47.0%  
- Lower D&A and Interest Expense



### Free Cash Flow Remains Strong

- Consistent Operating Cash Flow from Installed Base of 1.8 Million Rooms
- Fewer HD Installations at Lower Per Room Cost
- Lower Interest Expense



# LodgeNet Free Cash Flow Analysis\*

Annual Comparison	Q1 '11	Q1 '10	Q1 '11
			W/Converted Share**
Adjusted Operating Cash Flow	27.9	29.1	\$ 0.69
Interest Expense (net)	(7.7)	(8.7)	
Working Capital (net)	(1.0)	7.7	
<b>Pre-Investment Cash Flow</b>	<b>19.2</b>	<b>28.1</b>	<b>\$ 0.48</b>
Corporate Assets	(2.5)	(1.8)	
HD Upgrades and Minor Extension	(1.7)	(1.5)	
HD New Installations	(0.4)	(1.2)	
Total Capital Investment	(4.6)	(4.5)	
<b>Free Cash Flow</b>	<b>14.6</b>	<b>23.6</b>	<b>\$ 0.36</b>

\*\*Share Count with Preferred Stock Converted 40.25mm Shares

\*Free Cash Flow Definition see slide 17

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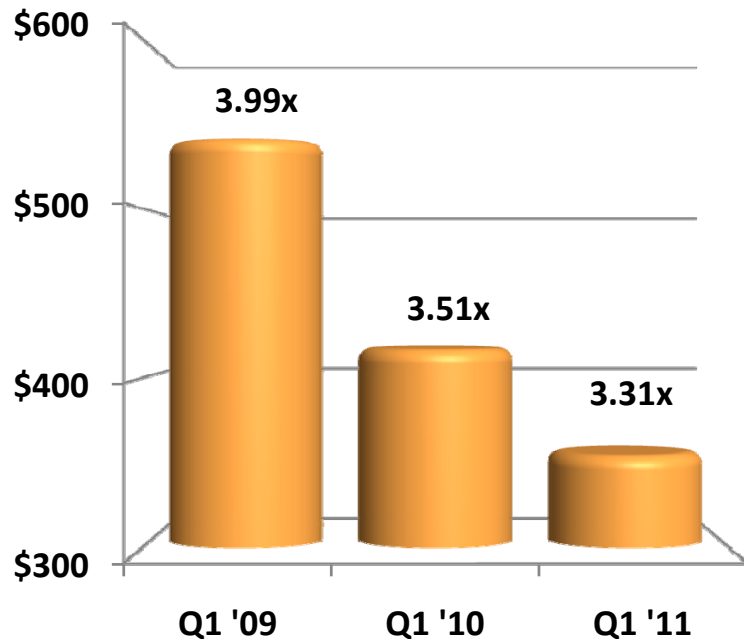
## ■ Amended Credit Facility in First Quarter

- Increased Allowable Leverage from 3.50x to 4.00x
- Created Preferred Stock Dividend Payment Basket
- Potential to Extend Term

## ■ Interest Expense Impact

- Amended Facility at LIBOR + 500bps with 1.50% LIBOR floor
- Interest Rate Swaps Expire end of June 2011.
- Expected Interest Rate for Q2 Approximately 12%
- Interest Rates Expected to Normalize at 6.5% Beginning in Q3

**Net Debt\* & Leverage Ratio**  
(\$ in millions)



\* Debt, Net of Cash

## Debt Reduced by \$187 Million Since Q1 '09

- Net Debt at \$354.5 Million
- Net Debt Leverage Ratio Reduced to 3.31x
  - Down sequentially from 3.35x in Q4 '10
  - Significantly below amended covenant of 4.00x

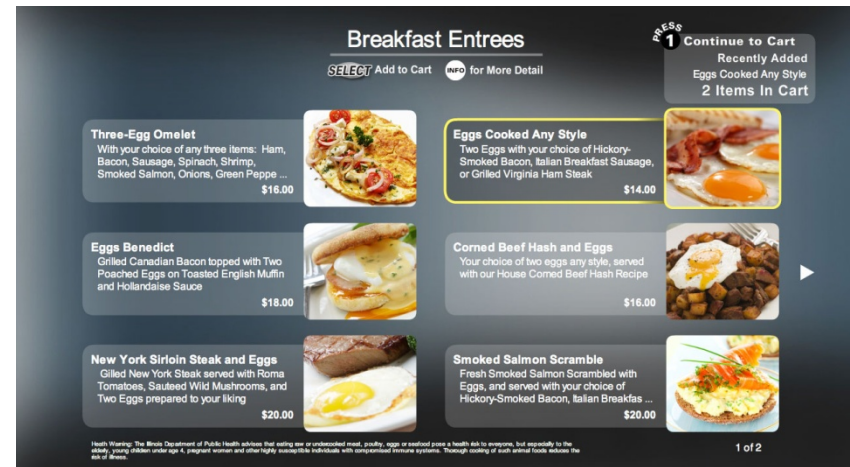
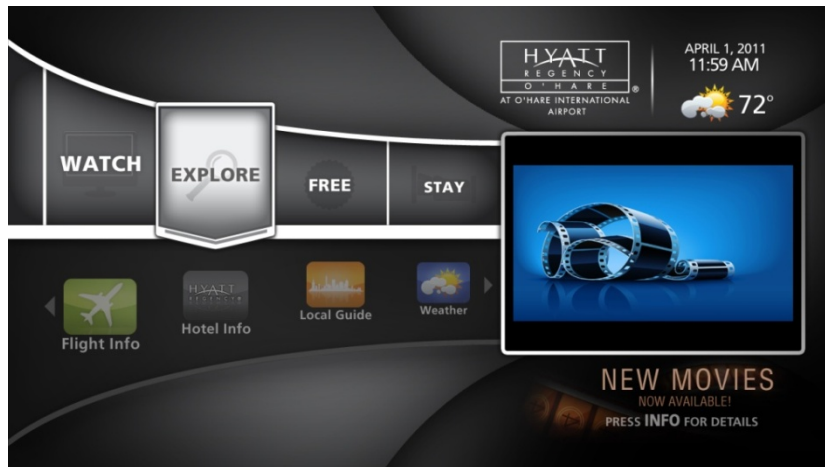
	<u>Q2 '11</u>	
	<u>low</u>	<u>high</u>
Revenue	\$ 106	\$ 110
AOCF*	\$ 25	\$ 28
Net Income (Loss) Per Common Share	\$ (0.20)	\$ (0.12)

Reflects:

- Guest Entertainment Revenue Per Room -3% to -8% vs. Q2 '10
- Growth Initiatives Revenue up 3% to 6% vs. Q2 '10

## Envision: “Cloud Connected” Interactive Television Successful Launch in First Quarter

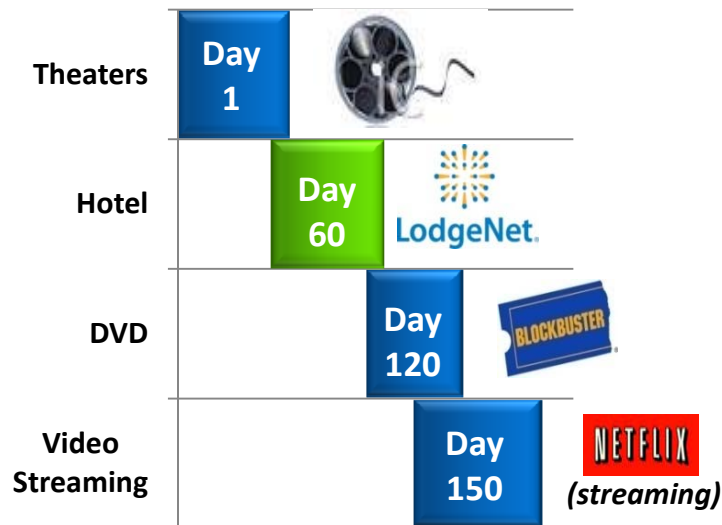
- **First Installation – 1,100 Room Hyatt Regency O’Hare**
  - Significant Increase in Guest Engagement
- **Positive Hotel Industry Reception**
  - Use Power of Envision to Reflect Brand & Improve Ops
- **Evolving Suite of Interactive TV Apps**
  - New Revenue Opportunities for LodgeNet & Hotels



## VOD 2.0: Q2 Launch

### Refreshing Our Value Proposition

- Tiered Pricing
- New On-Screen Look
- Marketing Earliest Window



### Revenue Opportunity from:

- More Guests into the System
- Higher Purchase Rates

## Reconciliation of Operating Income to Adjusted Operating Cash Flow

Operating Income

Plus: Depreciation and Amortization

Plus: Amortization of Purchase Intangibles

Plus: Restructuring Charges and Integration Expenses

Plus: Share-Based Compensation

Plus: Debt Issuance Costs

Equals: Adjusted Operating Cash Flow

## Reconciliation of Free Cash Flow

Cash from Operations

Less: Cash Used for Investing Activities, including Growth-Related Capital

Equals: Free Cash Flow