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## **Delivered On Financial Guidance Across All Metrics**

- Revenue, Adjusted Operating Cash Flow and Earnings Per Share
- Operating Income Up 35% with 10% Reduction in Operating Expenses
- Excluding Swap Interest, LodgeNet Generated Positive Net Income

## **Strategic Initiatives Continuing to Drive Growth**

- Diversified Hospitality Revenue Initiatives up 10% (per room)
  - Average Total Hospitality Revenue Down Less than 1% (per room)
- Healthcare Revenue up 130% with Cedars-Sinai Installation
- Next-Generation Envision System
  - Now Installed in Hotels within Four Seasons, Hilton, Hyatt & Starwood
  - Guests Usage Higher with New System
- VOD 2.0 Delivering Greater Guest Engagement and Hollywood Movie Revenue (per room)

## **Envision: “Cloud Connected” Interactive Television Successful Introduction and Reception from Hotels**



### **Now Installed in Nine Marquee Hotels including Four Seasons, Hilton, Hyatt and Starwood Brands**

- New Starwood Agreement Paves Way for Substantial Envision Upgrade Activity
- Strong Accolades from Hoteliers at June HITEC Trade Show
- Active Discussions with all Major Customers

### **Guest Usage of Interactive System Increases with Envision**

- 3X Greater Engagement with On-System Information

### **Win/Win Value Prop from Evolving Suite of Interactive TV Apps**

- Hotels Can Increase Revenue and Decrease Costs with Apps
- LodgeNet Per-room Cash Flow Poised to Increase 25% with Base Apps
- Existing HD Rooms Can Benefit from Apps with Software Upgrade

## VOD 2.0 – A Fresh Approach to a Guest Favorite

June Launch – Launched in 1.1 Million Rooms

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



### Immediate Positive Results in Hollywood Movie Purchases:

Browsing Up  
**20-25%**

More Guests into the System

Buy Rates up  
**15-20%**

Higher Theatrical Purchase Rates

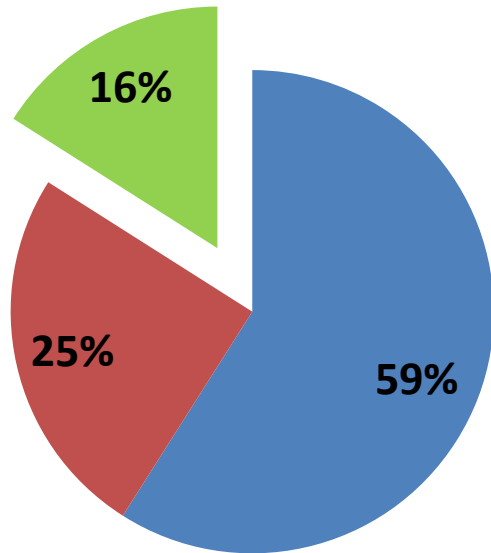
Revenue Up  
**5-10%**

Positive Theatrical Revenue Impact

## Guests Continuing to Buy Premium Titles (Pre-DVD Release)

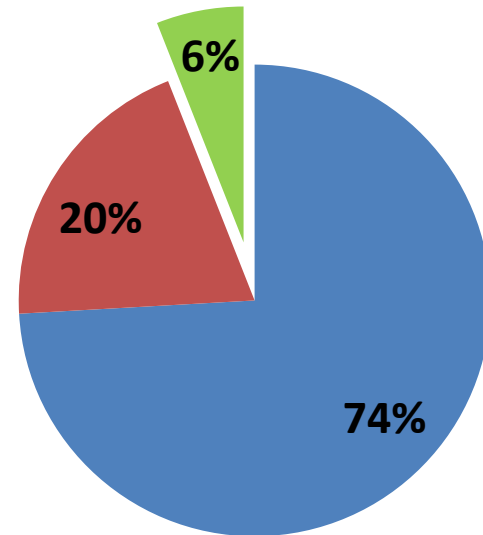
- Browsing Split 55/45 Between Newest Movies & Daily Deals
- 59% Bought Premium (newest) Titles – 74% of Theatrical Movie Revenue
- Biggest Revenue Lift in Analog Rooms

■ Premium ■ Standard ■ Daily Deals



Percent of Theatrical Movie Buys

■ Premium ■ Standard ■ Daily Deals



Percent of Theatrical Movie Revenue

## Credit Card Purchase Option (Currently in 130,000 rooms)

- Entered by Guest Through Interactive TV System
- 13% of Guests Buy with Credit Card; 23% of MA Purchases
- Other Alternative Payment Methods to be Tested in 2H'11

## Interactive Menu @ Turn-On (430,000 rooms now)

- TV Turns on to LodgeNet Interactive Menu versus Welcome Channel
- Increases Movie Purchases by approximately 5%
- Envision System Features this Protocol

## Overall Hollywood Movie Revenue Up

- June +4%
- July Outlook +6%

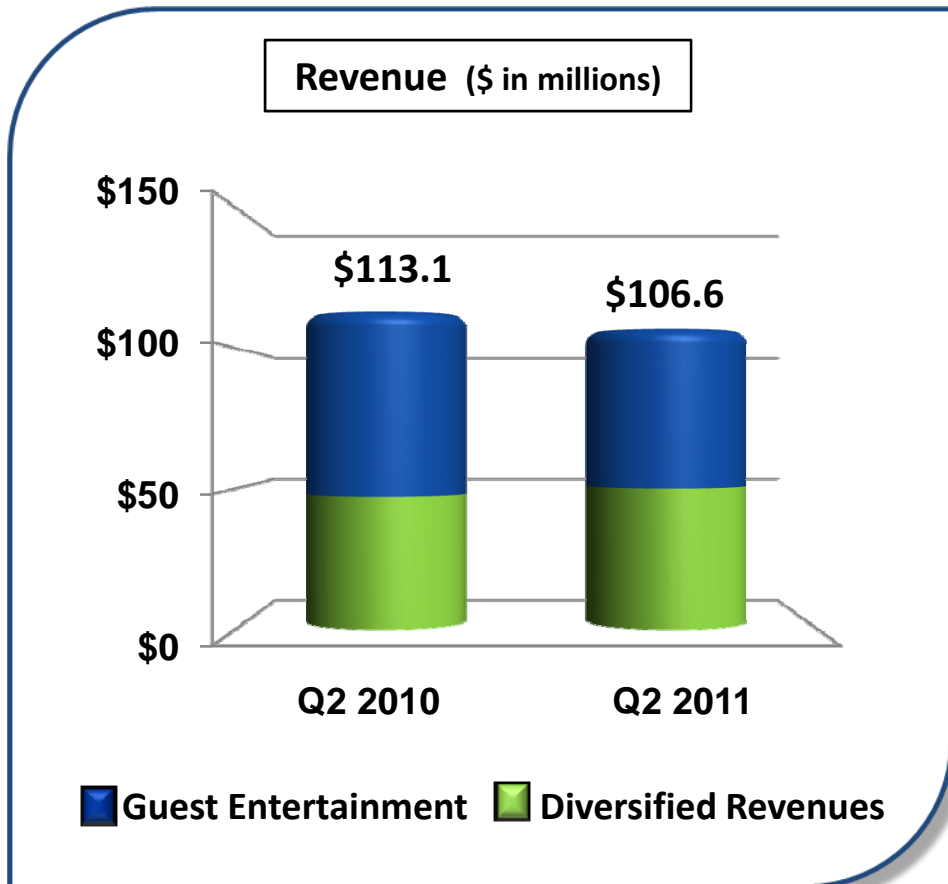


## New Subsidiary - Positioned To Drive Future Growth



- Reinforces LodgeNet Healthcare as a Business Focused on Healthcare Industry
- Allows Pursuit of Opportunities Within Federal Hospitals and Health Programs
- Record Quarterly Income Up 130% from Q2'10
- 60 Hospitals Installed – 10 currently in backlog





## Growth Initiatives Generate 47% of Total Revenue

Qtr/Qtr Revenue Changes:

- Healthcare +130%
- System Sales & Related +14%
- Hotel Services Flat

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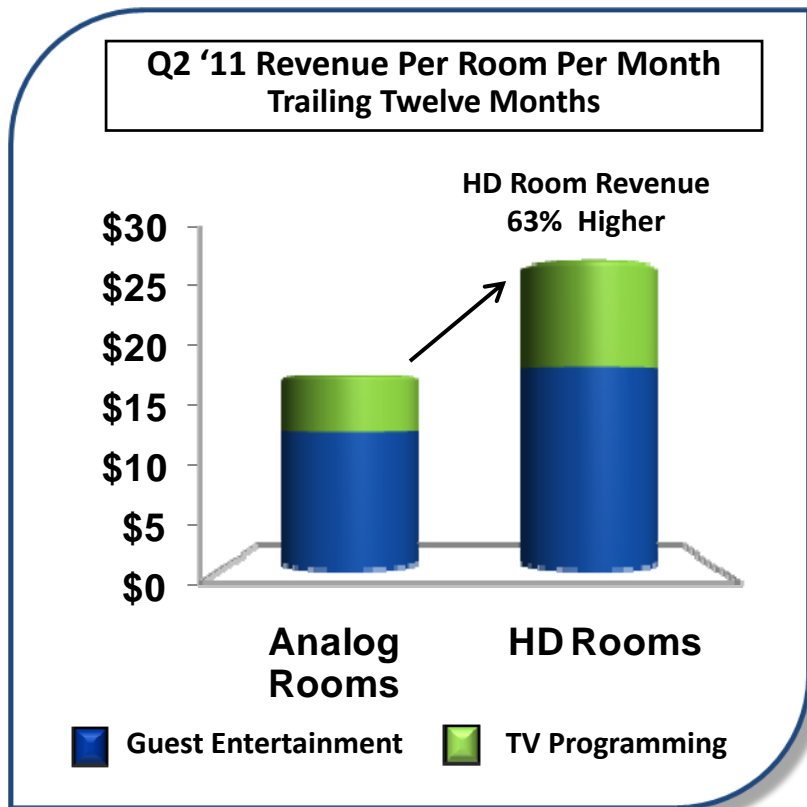
Total Revenue Down 5.7%



# LodgeNet Q2 Revenue Per Room Comparison

	Q2 '11	Q2 '10	Change	
			Q2 '11 vs Q2 '10	
<b>Hospitality Revenue</b>				
Guest Entertainment	\$ 11.56	\$ 12.54	\$ (0.98)	-7.8%
Hotel Services	6.98	6.48	0.50	7.7%
System Sales and Related	2.09	1.71	0.38	22.2%
Advertising Services	0.46	0.49	(0.03)	-6.1%
<b>Total Revenue per Room</b>	<b>\$ 21.09</b>	<b>\$ 21.22</b>	<b>\$ (0.13)</b>	<b>-0.6%</b>
<b>Excluding Guest Entertainment</b>	<b>\$ 9.53</b>	<b>\$ 8.68</b>	<b>\$ 0.85</b>	<b>9.8%</b>

- **Hospitality Revenue Per Room** – Down Less than 1% vs. Q2 '10
- **Diversified Revenues** – Up 9.8% on a Per-Room Basis
  - Growth in Strategic Initiatives Offset 87% of the Decline in Guest Entertainment Per Room
- **System Sales and Related**– up 22% on a Per-Room Basis
  - Driven by Higher HDTV Equipment and Installation Sales



➤ **HD Rooms = 63% Higher Revenue per Month vs. Analog Rooms**

- 55% More Guest Entertainment
- 78% More TV Programming

➤ **Installed 12.3K HD Rooms in the Quarter**

- Average Investment of \$140 Per Room
- Capital Investment Per Room Down 32% vs. LY

➤ **Solid Return on Capital Investment**

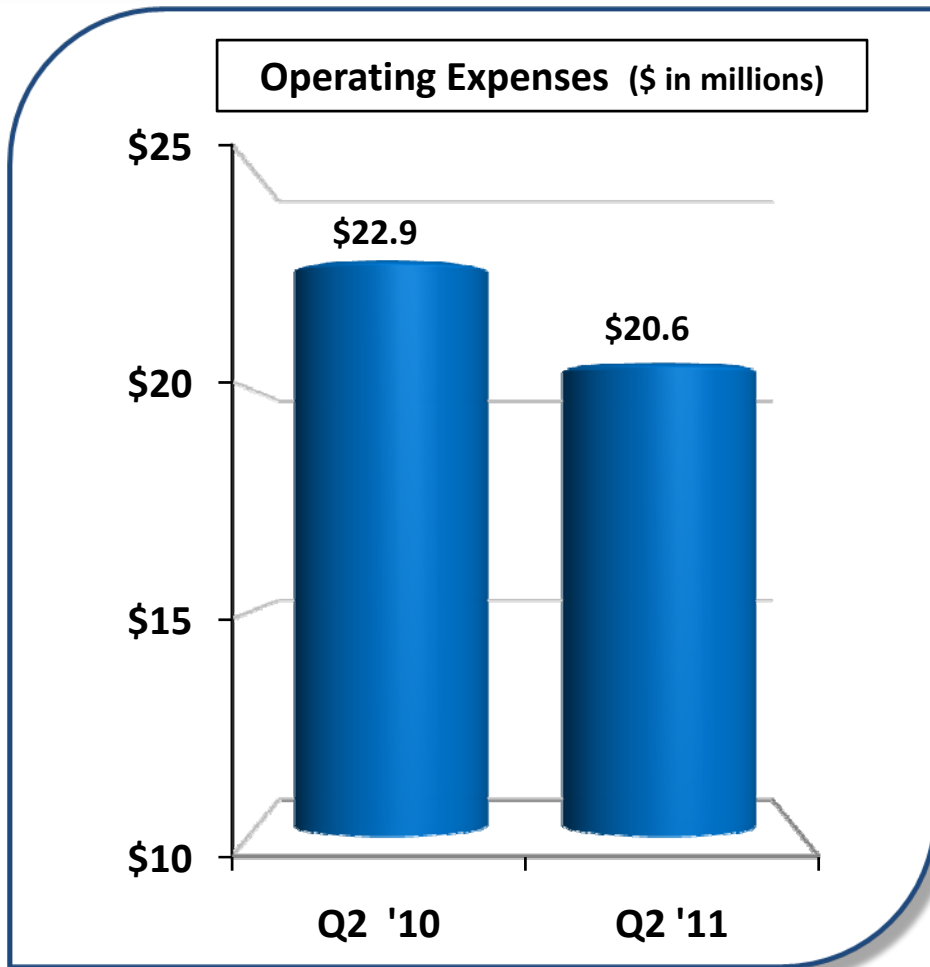
- \$140 - \$180 Investment per Room
- Capital Returned within 18 Months
- New 5 Year Contracts Upon Signing / Renewal

**HD Systems Now in More Than 285,000 Rooms (18% of Room Base)**

Significant Revenue Opportunity as HD Penetration Increases

	Q2 '11	Q2 '10	ppt Change
Guest Entertainment	61.7%	61.9%	-0.2%
Hotel Services	16.7%	13.1%	3.6%
System Sales & Related	30.5%	32.6%	-2.1%
Advertising Services	43.5%	47.3%	-3.8%
Healthcare	53.0%	48.8%	4.2%
<b>Total Gross Margin</b>	<b>43.6%</b>	<b>44.4%</b>	<b>-0.8%</b>

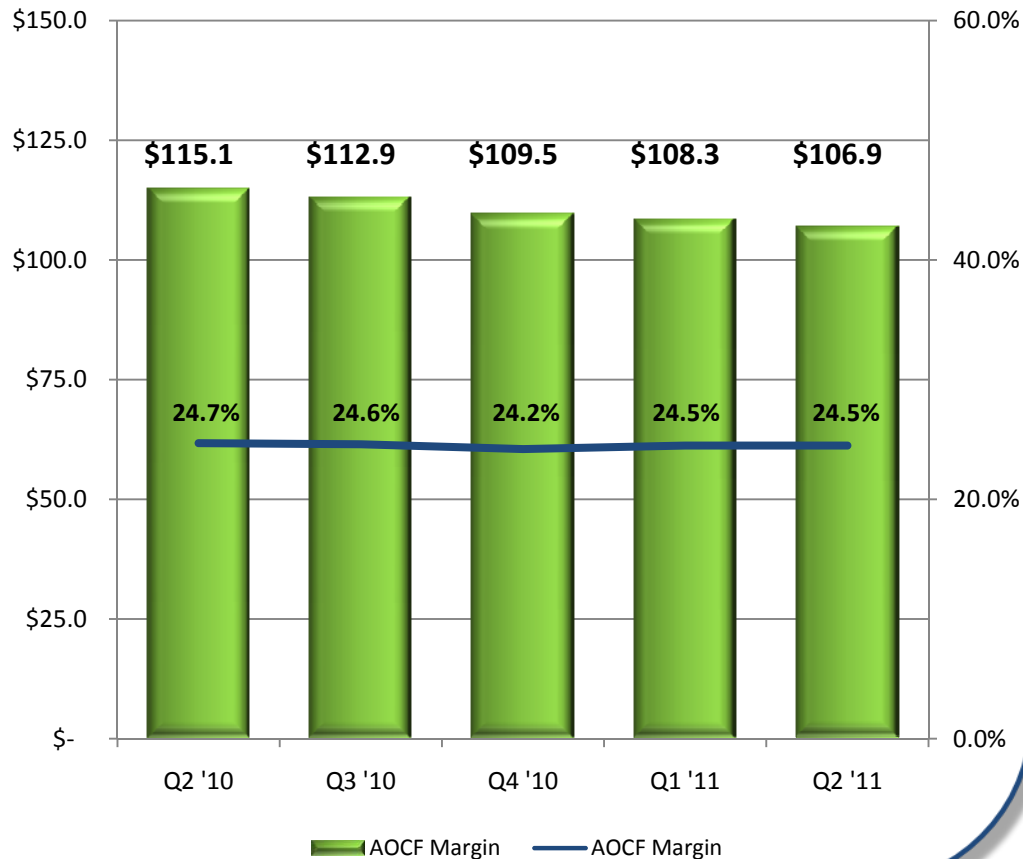
- **Strong Gross Margin Performance Across All Service Lines**
- **Hotel Services** – Improved Margin on FTG Programming
- **Healthcare** – Strong Margin on Recurring Revenue



### **Disciplined Expense Control**

- Down 10.3% from Q2 '10
- Reductions Driven by:
  - Workforce Reduction in Q1
  - Lower Professional Services/Legal Fees
- Operating Expenses Expected to Continue Below 2010 Levels

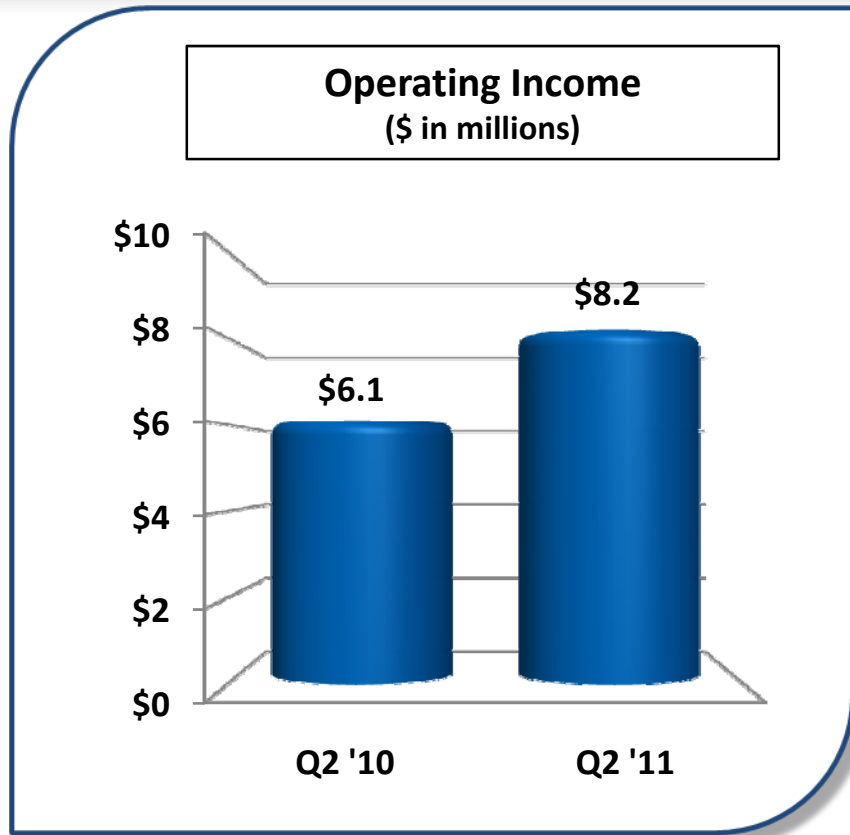
**Adjusted Operating Cash Flow**  
(Trailing Twelve Months, \$ in millions)



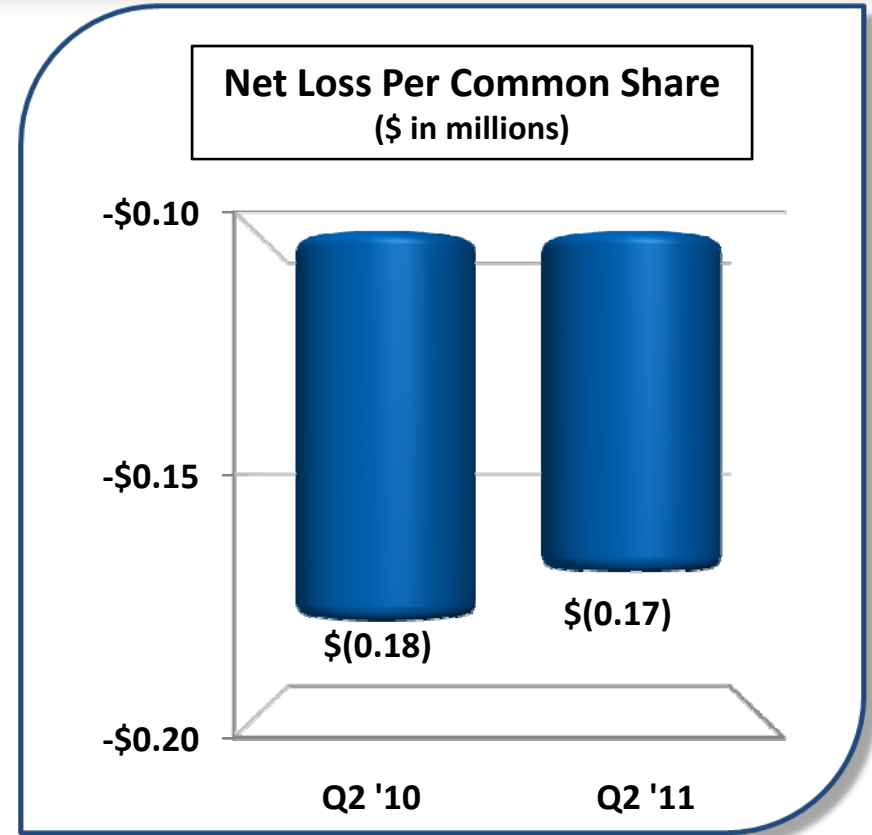
**Maintaining High Operating Margins**

- Attractive Product Margins
- Gross Margin Improvements Offset Impact of Mix Change
- Reduce Fixed Operating Expenses

\* Adjusted Operating Cash Flow Definition - see slide 18



- Operating Income Up 35%
  - Maintained High Operating Margins
  - Lower Depreciation & Amortization



- Net Loss Per Share Improved 6%
- Approaching Positive Net Income
  - Q2 Net Income to Common Would Have Been Positive With Normalized Interest Expense



# LodgeNet Free Cash Flow Analysis\*

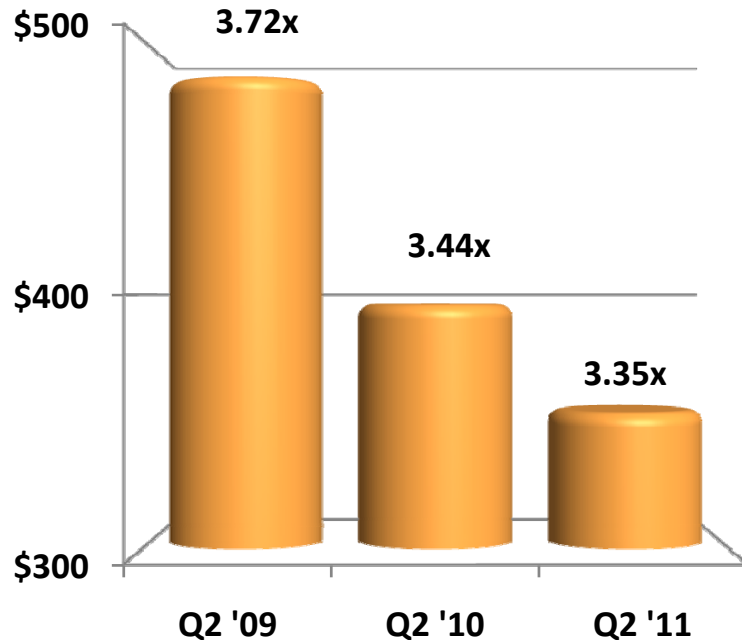
## Quarterly Comparison (\$ in millions)

	Q2 '11	Q2 '10	Q2 '11 W/Converted Share**
Adjusted Operating Cash Flow	\$ 26.4	\$ 27.9	\$ 0.66
Interest Payments	(11.6)	(7.8)	
Working Capital (net)	(6.5)	7.0	
<b>Pre-Investment Cash Flow</b>	<b>\$ 8.3</b>	<b>\$ 27.0</b>	<b>\$ 0.21</b>
Corporate Assets	(3.0)	(2.4)	
HD Upgrades and Minor Extensions	(2.8)	(1.6)	
HD New Installations	(0.2)	(0.4)	
Total Capital Investment	(6.0)	(4.5)	
<b>Free Cash Flow</b>	<b>\$ 2.4</b>	<b>\$ 22.6</b>	<b>\$ 0.06</b>
Free Cash Flow Adjusted for:			
Working Capital and Higher Interest Due to Swaps	\$19.7	\$22.6	\$ 0.49

\*Free Cash Flow Definition see slide 18

\*\* Share Count with Preferred Stock Converted 40.28mm Shares

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



\* Debt, Net of Cash

## Debt Reduced by \$179 Million Since Q2 '09

- Net Debt at \$353.5 Million
- Net Debt Leverage Ratio Reduced to 3.35x  
- Significantly Below Covenant of 4.00x

(\$ in millions except per-share data)

	Q3 '11	
	low	high
Revenue	\$ 105	\$ 109
AOCF*	\$ 24	\$ 27
Net Income (Loss) Per Common Share	\$ (0.08)	\$ 0.02

Reflects:

- Guest Entertainment Revenue Per Room -1% to -6% vs. Q3 '10
- Growth Initiatives Revenue Up 2% to 4% vs. Q3 '10

## 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