

Certain statements in this presentation constitute “forward-looking statements.” When used in this presentation and in the prepared remarks during our October 25<sup>th</sup> conference call, as well as in response to the questions during the conference call, the words “intends,” “expects,” “estimates,” “believes,” and similar expressions, and statements which are made in the future tense or refer to future events or developments, including, without limitation, those related to our fourth quarter 2011 guidance, including revenue, Guest Entertainment revenue per room, adjusted operating cash flow, net income (loss), loss per common share, and anticipated HD Envision room installations, are intended to identify such forward-looking statements. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: the effects of economic conditions, including general financial conditions; the economic condition of the lodging industry, which can be particularly affected by the financial conditions referenced above, as well as by high gas prices, levels of unemployment, consumer confidence, acts or threats of terrorism and public health issues; competition from providers of similar services and from alternative systems for accessing in-room entertainment; competition from HSIA providers; changes in demand for our products and services; programming availability, timeliness, quality and costs; technological developments by competitors; developmental costs, difficulties and delays; relationships with customers and property owners, in particular as we reduce capital investment; the availability of capital to finance growth; compliance with credit facility covenants; the impact of governmental regulations; potential effects of litigation; risks of diversification into new products, services or markets; risks related to the security of our data systems; and other factors detailed, from time to time, in our filings with the Securities and Exchange Commission. For any of the foregoing reasons, our guidance and our actual financial results may not meet our expectations. These forward-looking statements speak only as of the date of this presentation. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

## **Solid Results that Delivered On Financial Guidance**

- Revenue, Adjusted Operating Cash Flow and Earnings Per Share

## **Net Income Generated**

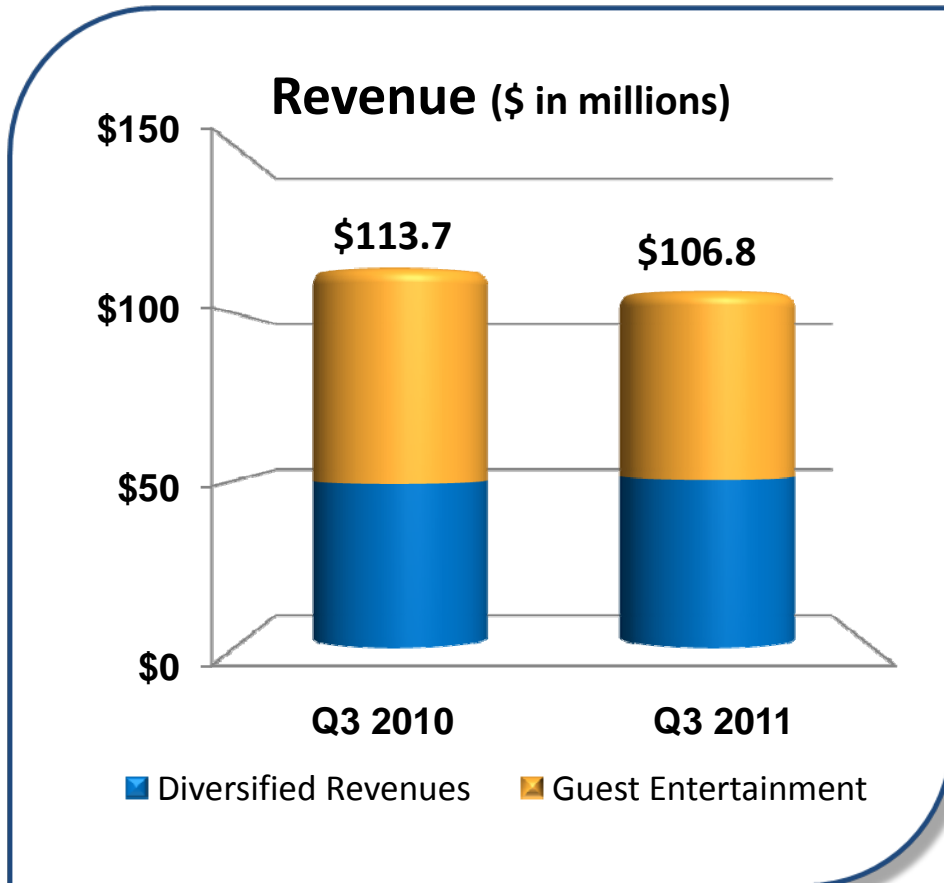
- Revenue Growth from Strategic Initiatives
- More Efficient Operating Cost Structures

## **Hospitality Per-Room Revenue Up**

- Diversified Hospitality Revenue Initiatives up 10% (per room)
- Guest Entertainment Revenue Benefiting from VOD 2.0 Initiative & Better Content

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

- High Definition and Envision Room Growth
- “Connected TV” and “Four Screen” Opportunities



## Growth Initiatives Generate 47% of Total Revenue

Revenue Changes vs. Prior Year:

- System Sales & Related +10%
- Advertising +8%
- Healthcare +17%

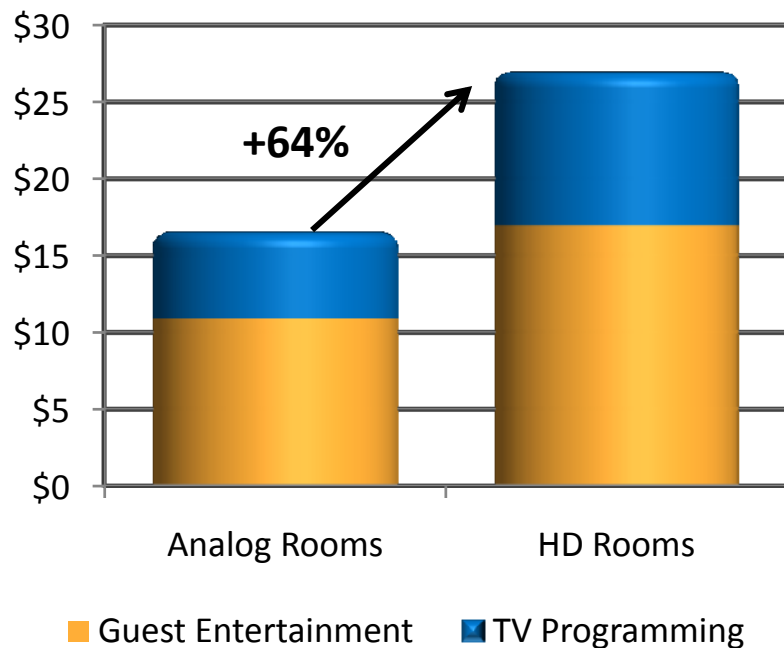
---

Total Revenue Down 6%

<b>Hospitality Revenue</b>	<b><u>Q3 '11</u></b>	<b><u>Q3 '10</u></b>	<b><u>Q3 '11 vs Q3 '10 chg</u></b>	
Guest Entertainment	\$11.88	\$12.53	\$ (0.65)	-5.2%
Hotel Services	7.03	6.56	0.47	7.2%
System Sales and Related	2.43	2.04	0.39	19.1%
Advertising Services	<u>0.50</u>	<u>0.42</u>	<u>0.08</u>	<u>19.0%</u>
<b>Total Revenue per Room</b>	<b>\$21.84</b>	<b>\$21.55</b>	<b>\$0.29</b>	<b>1.3%</b>
<b>Excluding Guest Entertainment</b>	<b>\$ 9.96</b>	<b>\$9.02</b>	<b>\$0.94</b>	<b>10.4%</b>

- **Hospitality Revenue Per Room Up 1.3% vs. LY** – First Quarterly Growth Since Start of Recession
- **Diversified Revenues Up 10.4%** – Growth in All Products and Services
  - Hotel Services up \$0.47 Per Room Driven by TV Programming
  - System Sales & Related up 19% Due to Equipment Sales and Related Programming
  - Advertising – Carriage Fees and Server-Based Advertising Drive 19% Growth

**Q3 '11 Revenue Per Room Per Month  
(Trailing Twelve Months)**



## HD Rooms = 64% Higher Revenue per Month vs. Analog Rooms

- 57% More Guest Entertainment
- 77% More TV Programming

### ➤ Installed 8,800 HD Rooms in 3rd Quarter

- Average Investment of \$135 Per Room
- Capital Investment Per Room Down 29% vs. LY

### ➤ Solid Return on Capital Investment

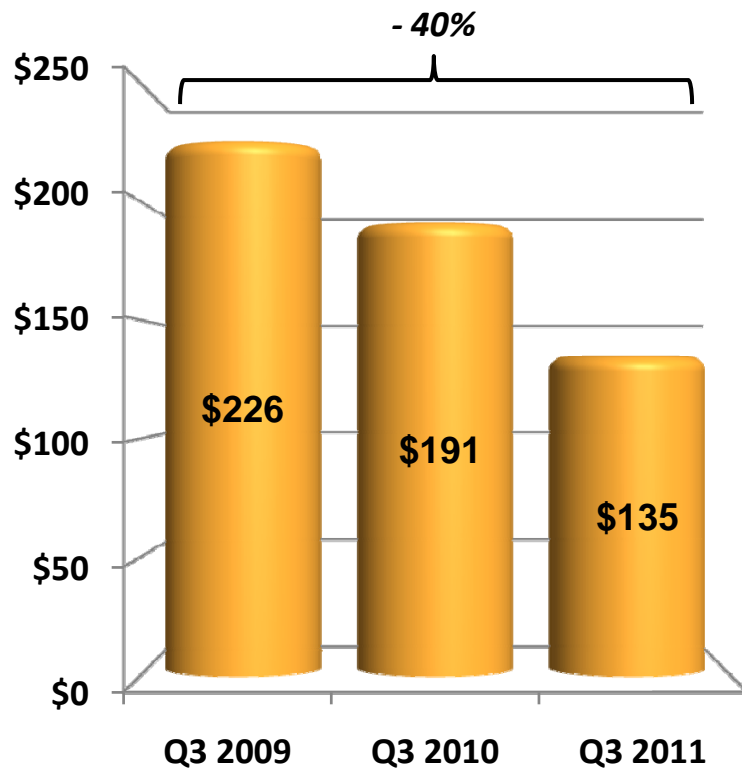
- \$125 - \$175 Investment per Room
- Capital Returned within 18 Months
- 5 Year Contract with Upgrade

### ➤ Supports Envision Platform

- All Future HD Upgrades Support Envision Apps
- Existing HD Rooms Upgradeable to Envision

**HD Systems Now in 290,000 Rooms (19% of Room Base)**  
Significant Revenue Opportunity as HD Penetration Increases

## High Definition Capital Investment Per Room



## HD Investment Down 40% in Two Years

- Lower Server and Component Costs
- Reduced Installation and Assembly Costs
- Increase in Average Hotel Size
- Higher Mix of Upgrades vs. New Installations

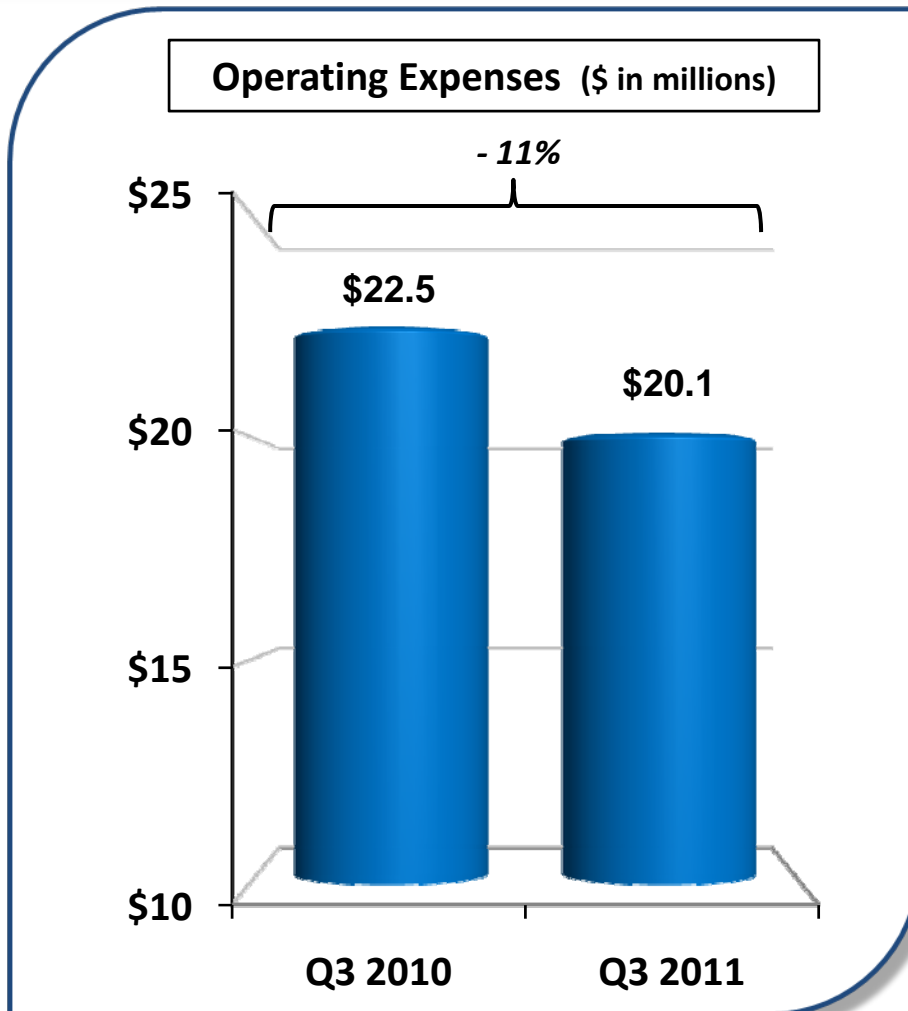
---

**Declining Cost Per Room Enables  
LodgeNet and Hotels to Accelerate  
HD Envision Rollout in 2012**

	<u>Q3 '11</u>	<u>Q3 '10</u>	<u>Ppt Chg</u>
Guest Entertainment	59.3%	60.2%	-0.9%
Hotel Services	17.7%	13.2%	4.5%
System Sales and Related	42.7%	37.1%	5.6%
Advertising Services	46.5%	42.1%	4.4%
Healthcare	46.3%	51.5%	-5.2%
Total Gross Margin	43.8%	43.5%	0.3%

### Solid Gross Margin Performance

- **Hotel Services** – Improved Margin on TV Programming Fees
- **System Sales & Related** – Strong Margin on Equipment Sales and Contract Term Fees
- **Advertising** – Growth in High Margin Server-Based, Customized Content



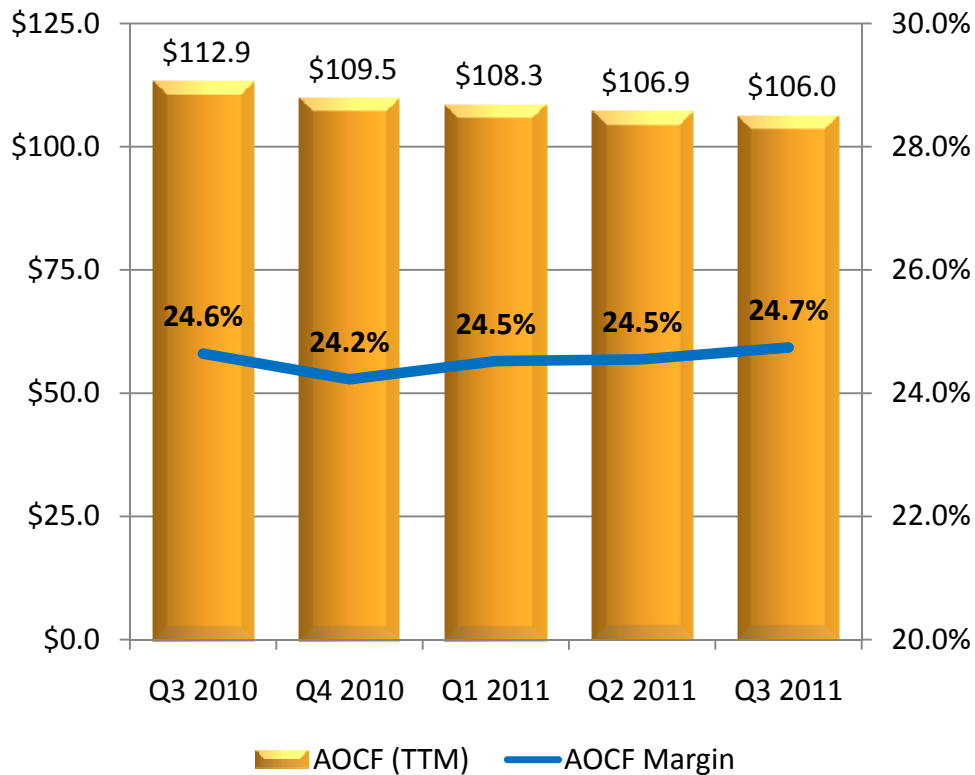
## Expenses Down 11%

- Lower Personnel Costs
  - Workforce Reduction in Jan 2011
  - Headcount 9% Below Prior Year
- Professional Fees Down Significantly Due to Reduced Legal Fees and Financing Activities
- Repair and Facilities Costs Down

---

**Company Continues to Fund Product Development in Envision Apps, Mobile and Advertising**

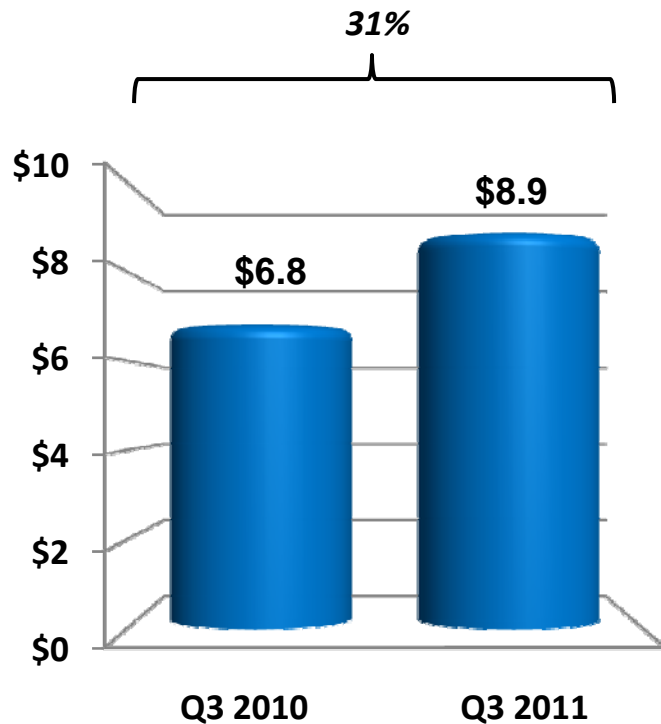
## Adjusted Operating Cash Flow (Trailing Twelve Months, \$ in millions)



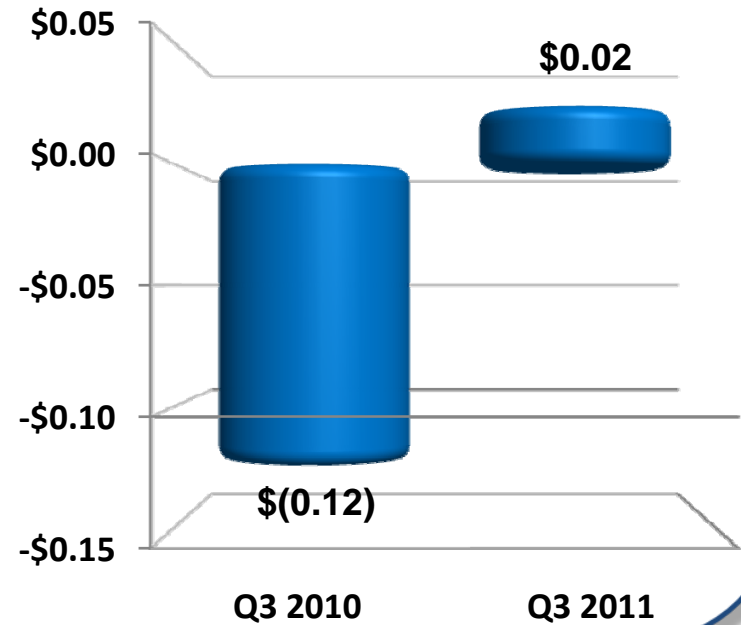
## High Operating Margins

- Improvements in Product Margins Offset Sales Mix Change
- High Gross Margins and Operating Expense Control Create Efficient Operating Model
  - Gross Margin +30 bps
  - Operating Expenses down 11%

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



**Earnings (Loss) Per Common Share**



➤ Operating Income Up 31%

- High Operating Margins
- Lower Depreciation & Amortization

➤ Positive Earnings Per Share

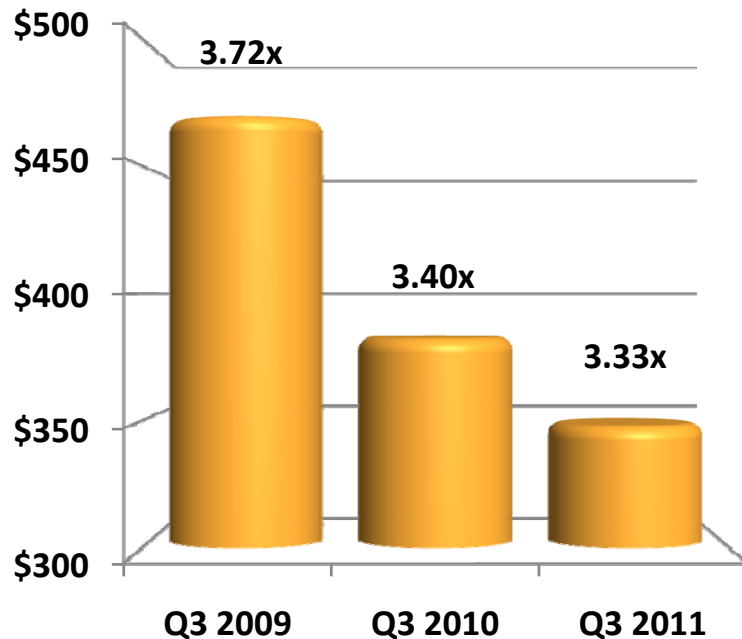
- \$2.1 Million Increase to Operating Income
- \$1.7 Million Decline in Interest Expense

Quarterly Comparison (\$ in millions)	Q3 '11		
	Q3 '11	Q3 '10	W/Converted Share**
Adjusted Operating Cash Flow	\$ 27.0	\$ 27.9	\$ 0.67
Interest Payments	(6.3)	(7.8)	
Working Capital (net)	<u>(7.3)</u>	<u>(0.1)</u>	
<b>Pre-Investment Cash Flow</b>	<b>\$ 13.4</b>	<b>\$ 20.0</b>	<b>\$ 0.33</b>
Corporate Assets	(2.6)	(2.8)	
HD Investments & Extensions	<u>(3.5)</u>	<u>(1.9)</u>	
Total Capital Investment	(6.1)	(4.7)	
<b>Free Cash Flow</b>	<b>\$ 7.3</b>	<b>\$ 15.3</b>	<b>\$ 0.18</b>
<b>Free Cash Flow Adjusted for Working Capital</b>	<b>\$ 14.6</b>	<b>\$ 15.4</b>	<b>\$ 0.36</b>

\*Free Cash Flow Definition see slide 19

\*\* Share Count with Preferred Stock Converted 40.42mm Shares

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



\* Debt, Net of Cash

## Debt Reduced by \$122M in Two Years

- Net Debt at \$347.8 Million
  - Reduction of \$34.5 Million vs Last Year
- Net Debt Leverage Ratio Reduced to 3.33x
  - Significantly Below Covenant of 4.00x
  - Down Sequentially from 3.35x in Q2

---

**Lower Debt Level Enables Company to Aggressively Invest in Strategic Growth Initiatives**

(\$ in millions except per-share data)

	<u>Q4 '11</u>	
	<u>Low</u>	<u>High</u>
Revenue	\$ 100	\$ 104
AOCF	\$ 22	\$ 25
Net Income (Loss) Per Common Share	\$(0.20)	\$(0.08)

Guidance Reflects:

- Guest Entertainment Revenue Per Room Flat to -5% vs. Q4 '10
- Other Hospitality Revenue Up 10%+ on Per-Room Basis
- Approximately 15,000 HD Envision Installations in Q4



4th Annual  
  
CUSTOMER  
TECHNOLOGY  
SYMPOSIUM

**Theme:**

Connecting Guests: Any Screen. Any Time

**Location:**

Hyatt Regency O'Hare

- First Envision iTV Installation

**Presenting Companies Included:**



 LodgeNet. innovation | it's what we do

CONNECTING GUESTS: ANY SCREEN. ANY TIME.



## Envision Enables Powerful Four Screen Guest Communication



- Communicate with Guests In-Room, On-Property, “On the Way”
  - Via Interactive TV, Broadband, Mobile, Tablets
- Guest Services, Brand Messaging, Convention Services

**CONNECTING GUESTS: ANY SCREEN. ANY TIME.**



## Envision = Internet “Connected” Television

- Exploding in consumer market
- 25% of sets sold this year

## LodgeNet Mobile App

- Turns iPhone, Android & iPad into TV Remote Control



## UltraViolet

- Enables Electronic Sell-Through in Rooms
- Guest Can Buy Access to Content “in the Cloud”



# ULTRAVIOLET™

CONNECTING GUESTS: ANY SCREEN. ANY TIME.



## Positive Research Released

- ▶ **LodgeNet VOD 5<sup>th</sup> Most Popular Hotel “Channel”**
  - Only Broadcast Networks and Premium Higher
- ▶ **PwC Report Highlights Value of Premium VOD**
  - Faster Access To Content Most Appealing
- ▶ **Guest Survey Reflects Positive Impression of iHDTV**
  - 2/3 Find Hotels with iHDTV as Superior, More Innovative

 **LodgeNet**. innovation | it's what we do

CONNECTING GUESTS: ANY SCREEN. ANY TIME.



## Gaining Consumer and Hotel Adoption

- ▶ **Consumers: Accessing Interactive Services 3x more than Prior HD Platform**
- ▶ **Hotels: 19,000 Rooms Now Under Contract**
  - Over 1/3 Subscribing to One or More Envision Apps
  - Average Monthly Subscription Over \$3.00 Per Room
  - High Margin Envision Revenue Increases iHDTV Monthly Cash Flow by 25%

## **Reconciliation of Operating Income to Adjusted Operating Cash Flow**

Operating Income

Plus: Depreciation and Amortization

Plus: Restructuring Charges and Integration Expenses

Plus: Share-Based Compensation

Plus: Impairment Charge

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