

THE COMPANY

Prime Hospitality Corp. is an owner, manager and franchisor of hotels. It currently operates 238 hotels, containing 30,170 rooms located in 33 states. Prime controls two hotel brands, AmeriSuites, which are upscale all-suites hotels, and Wellesley Inns & Suites, which are mid-price limited service hotels. The company also operates a portfolio of upscale, full-service hotels under franchise agreements with national hotel chains.

FINANCIAL DATA

| | 2000 | 2001 | 2002e |
|---------------------------|-------|-------|-------|
| Earnings per Share (\$) | 1.37 | 0.90 | 0.28 |
| Price to Earnings (times) | 9.2 | 11.2 | 28.9 |
| Dividend (\$) | - | - | - |
| Dividend Yield (%) | - | - | - |
| Book Value (\$) | 14.01 | 15.78 | 16.05 |
| Price to Book (times) | 0.58 | 0.52 | 0.50 |

HISTORICAL SHARE PRICES

WHY ABC FUNDS BOUGHT PRIME HOSPITALITY

Prime Hospitality (PDQ) is in the midst of transforming itself from a hotel owner/operator to a franchisor and manager of hotel brands. The strategy is to sell the company's land and hotels to independent owners. The Company will then receive a royalty fee for supplying the brand names, advertising, and supporting infrastructure. The royalty fee ranges between 7.5% and 8.5% and is calculated as a percentage of room sales. We believe that this strategy is good for shareholders for a number of reasons. First, by selling its land and hotels, PDQ is unlocking the illiquid real estate value that is not fully reflected in its stock price. Second, the company can use the proceeds to pay down debt and repurchase shares. As a result of smaller interest payments and fewer outstanding shares, earnings and cash flow per share should improve. Finally, this strategy will allow the company to focus entirely on its key strengths: managing and growing the AmeriSuites and Wellesley brands.

We also like that PDQ management has "skin in the game". We believe that significant share ownership is the most sensible way to align management's interests with those of the shareholders. CEO, A.F. Petrocelli, controls over 2.5 million shares or 5.6% of the outstanding total with options to purchase another 4.8 million. Most of these options become exercisable by October 2004 at \$9.12 or immediately in the event that the company is acquired. We believe that Mr. Petrocelli would be a very motivated seller of PDQ at the right price due to the vast number of shares he currently owns and the amount of shares that would automatically be exercisable if PDQ were acquired. With PDQ's share price now approaching the average strike price of Petrocelli's options, we believe a large incentive exists for Petrocelli to improve the company's share price from its current level.

Companies in the lodging sector continue to be impacted by weakness in the U.S. economy, which has a significant effect on business travel. In its most recent quarter, PDQ's occupancy rate fell to 63% from 67% the same quarter last year, but remains better than the industry average of 60%. Revenue per available room (REVPAR) fell 6% year over year while the industry has fallen 7%. PDQ's relative strength in these times gives us confidence in the staying power of its brands and management's ability to carry through with its strategy for the company.

PDQ currently trades at a 50% discount to its 2002 expected year-end book value. We anticipate that this discount will narrow as the company continues to raise cash through its franchising strategy while paying down debt and repurchasing shares. We are confident that PDQ's CEO A.F. Petrocelli will make choices that are in the best interest of shareholders since he himself has a meaningful equity stake. We also expect that when business travel improves, occupancy rates and REVPAR will lead to increased room sales and thus higher franchising fees. With these forces at work, we believe that significant upside potential exists for PDQ stock in the next 12-18 months.

UPDATES

The U.S. hotel industry continues to be negatively impacted by war with Iraq, a perceived threat to homeland security and a cautious outlook for the US economy. Business travel, which represents 75% of Prime's revenue, has been particularly hard hit as many businesses have put travel plans on hiatus or have scaled back in an effort to cut costs. For the fourth quarter of 2002, revenue per available room (REVPAR) at Prime's comparable owned and leased hotels decreased 5% as compared to the fourth quarter of 2001. Prime reported a net loss before asset transactions for the quarter of \$2.9 million, or \$0.06 per share, compared to income of \$0.8 million, or \$0.02 per share, for the same period a year ago. For the full year net income before asset transactions and other charges was \$5.8 million or \$0.13 per share, compared to \$26.6 million or \$0.58 per share for 2001.

Since October, PDQ's share performance has lagged. After reaching over \$9 in December, the shares are now trading between \$5 and \$6. PDQ shares could appear fairly valued to those investors who take into consideration only the company's current levels of cash flow and occupancy rates. We believe however that when PDQ's normalized cash flow and occupancy rates are considered, that is those that can be expected to occur throughout an entire business cycle, its assets are actually worth much more.

PDQ shares have been subject to a number of analyst downgrades in recent months. In December PDQ purchased an interest in the Sheraton Meadowlands Hotel and Conference Center, located in East Rutherford New Jersey and in January purchased an interest in the Holiday Inn Select Hotel, located in Old Quebec City. News of the acquisitions was not well received by some Wall Street research departments who viewed the purchases as a departure from the company's stated strategy of divesting its hotel portfolio and transitioning into a fee based franchising company. We believe that management at Prime Hospitality is not departing from its long-term strategy, a strategy that since January 1999 has resulted in the sale of \$400 million in assets, a \$300 million reduction in long term debt and share repurchases totaling over 10 million or 20% of the outstanding float. The hotel real estate market is currently very weak and we believe management is being opportunistic by purchasing hotels at a discount.

PDQ shares now trade at a 60% discount to its replacement value and a 66% discount to book value. Keep in mind that CEO A.F. Petrocelli has great incentive to create shareholder value given that he owns 2.5 million PDQ shares with options to purchase another 4.8 million at prices higher than the current market price. After war with Iraq is rectified, and once homeland security concerns begin to subside, we expect that business travel will gradually return to previous levels. At that point, PDQ shares should recover and start to reflect the net asset value of the company.

ABC Funds

March 21, 2003

On July 31st Prime Hospitality (PDQ) released its second quarter results. Net income before asset transactions was \$2.3 million, or \$.05 per share, compared to \$6.1 million, or \$.13 per share for the second quarter of 2002. Revenue per available room (REVPAR) decreased by 3.7% in the quarter versus last year reflecting the continued weakness in business travel. Although REVPAR decreased in the quarter the trend is encouraging when looked at on a monthly basis. REVPAR decreased 7%, 2% and increased 1% in the months of April, May and June respectively, indicating that business travel appears to be picking up. This statistic has not gone unnoticed by the investment community. PDQ shares have rallied 22% so far in August and have more than doubled since falling as low as \$4.53 in March.

What is also encouraging is the fact that CEO A.F. Petrocelli continues to buy shares of PDQ for his own account. Since April of this year, Mr. Petrocelli has purchased more than 1 million shares, increasing his stake in the company to nearly 8%. It is also important to remember that most of his stock options become "in the money" around \$9 a share and are immediately exercisable in the event the company is sold. A sale of the company at a premium to the current stock price would be a large windfall for the CEO and we believe this strategic option for the company has not been lost on him.

Finally, we remain convinced that PDQ shares are still undervalued at these levels. With ownership of 16,000 rooms and an enterprise value of \$640 million, investors are currently valuing PDQ shares at only \$40k a room. This compares with a book value of \$60k per room, or \$15.20 a share and replacement cost of \$65k-\$70k per room. It should also be noted that PDQ has recently sold hotels from its portfolio for between \$80k-\$85k a room. We expect PDQ shares to further appreciate. Signs are beginning to point to a rebound in the U.S. economy and this should result in increased occupancy rates at PDQ's brands and ultimately higher earnings for PDQ.

ABC Funds

August 22, 2003

UPDATES (cont'd)

An increase in leisure travel over the summer helped PDQ achieve an increase in revenue per available room (REVPAR) of 0.3% compared to last year. This represents the first increase in REVPAR since the first quarter of 2001. PDQ's earnings before interest, taxes, and depreciation (EBITDA), which declined 7%, was a marked improvement compared with previous quarters of double digits declines. While business conditions are still challenging, we are becoming more confident that the worst is probably behind PDQ, and that it has reached a turning point in its business cycle.

PDQ is slowly beginning to benefit from stronger growth in the U.S economy. GDP rose 7.2% in the third quarter, the highest level seen since 1984. While leisure travel was strong in the quarter, PDQ has experienced only a modest recovery in cooperate travel, its largest customer market. This observation should not discourage investors, as room demand at PDQ's hotels, historically, tends to lag the economy as well as that of its competitors. While a little patience may be required, investors in the meantime can take comfort in the fact that PDQ shares still trade at a 37% discount to its book value of \$15.21.

ABC Funds
November 7, 2003

On February 12th 2004 Prime Hospitality reported its results for the three months and year ended December 31, 2003. Prime reported a small loss of \$1.3 million or \$0.03 per share for the quarter compared to a loss of \$2.8 million, or \$0.06 per share last year. For the year, Prime lost \$2.5 million or \$0.06 per share compared to net income before asset transactions of \$5.8 million, or \$0.13 per share for the comparable period in 2002. Revenue per available room (REVPAR) decreased 3.3% for the year to \$41.77 from \$43.18 last year. This decrease was a result of lower rates, which were partially offset by higher occupancy levels.

On February 20th Prime Hospitality announced that it has signed an agreement with Expedia.com and Hotels.com to provide customers with access to all of Prime's hotels. Under the agreement, both of the websites will present prices to customers which are equal to the rates sold through Prime's own branded website. The agreement also calls for the joint development of a direct connection to Expedia.com and Hotels.com into Prime's Central Reservation System making it more accurate and cost effective.

Despite a nearly two-fold increase in price in the last twelve months, shares of Prime Hospitality continue to trade below their book value, replacement cost and net asset value. On March 5th, Extended Stay America, a publicly traded operator of hotels, agreed to be purchased by buyout firm Blackstone Group for \$19.625 per share. This price represented a 25% premium over the previous days closing price and translates to a purchase price of approximately \$61,000 per room. Shares of Prime Hospitality, which offers comparable, if not more upscale rooms and services, are currently trading at approximately \$43,000 per room. We feel this transaction not only sets a precedent for asset values in the industry, but also highlights Prime's significant market under valuation. This fact could become a major positive catalyst toward a meaningful appreciation of Prime Hospitality shares.

ABC Funds
March 19, 2004

On August 18th 2004 Prime Hospitality Corp. (PDQ) announced that it had signed a definitive agreement to be acquired by affiliates of the Blackstone Group for \$12.25 per share, a 42% premium to its closing price of \$8.63 per share. The deal values PDQ at a 20% discount to its book value of \$15.24 per share and implies a value of roughly \$48,500 per room. In March The Blackstone Group purchased hotel operator Extended Stay America for approximately \$61,000 per room.

The deal includes a break up fee that would pay Blackstone \$23 million + \$4 million for expenses or roughly \$0.61 per share should PDQ terminate the deal. Although the agreement does not allow PDQ to solicit bids from other parties, there is nothing preventing a potential unsolicited company from making a higher offer for PDQ. Given that Blackstone's offer of \$12.25 per share is below PDQ's book value and lower than the price per room it paid for Extended Stay America, we have decided to hold onto our PDQ shares given the possibility that a better offer could be on the way.

ABC Funds
August 20, 2004

On October 6th 2004, shareholders of Prime Hospitality Corp (PDQ) voted in favour of the proposed acquisition of PDQ by affiliates of the Blackstone Group for \$12.25 per share. Approximately 99% of stockholders present and voting adopted the merger agreement, representing approximately 65% of the total number of outstanding shares entitled to vote. Blackstone's offer was 24% below PDQ's book value of \$15.24 and valued the hotel assets at roughly \$48,500 per room, below the roughly \$61,000 per room it paid for Extended Stay America in March. Given that, we had decided to hold onto our shares in the hope

UPDATES (cont'd)

that another bidder would emerge and offer a higher price. As it turned out, no other bidder came forward and the deal was accepted. Therefore, we plan to tender our shares and use the proceeds towards new investment ideas.

ABC Funds

October 8, 2004