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HOTELS

February 1, 1999

Cavanaugh's Hospitality Corporation Announces 1998 Year End And Fourth Quarter Results; Net Income Surges 295% On The Year

Full year results:

- 61.3% increase in Total Revenues
- 81.1% increase in Total Hotel Room Revenues
- 66.4% increase in EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
- 324% increase in Income Before Extraordinary Items (295% increase in Net Income)
- 165% increase in EPS (Earnings Per Share before extraordinary item)
- 9.4% increase in Comparable Hotel Room Revenue (Hotels owned for greater than one year)
- 129% increase in number of owned rooms
- Call capture rate in Cavanaugh's National Reservation Center increased to 96%

Fourth quarter results:

- *67.9% increase in Total Revenues*
- *90.9% increase in Total Hotel Room Revenue*
- *93.4% increase in EBITDA * 1,073% increase in Net Income*
- *644% increase in EPS*
- *4.4% increase in Comparable Hotel Room Revenue*

SPOKANE, WA -- Cavanaugh's Hospitality Corporation (NYSE:CVH) today reported results for the year and quarter ended December 31, 1998. EPS for the year increased 165% from \$.27 in 1997 to \$.71 in 1998, and EPS for the fourth quarter increased 644% from (\$.02) in 1997 to \$.11 in 1998. During the year the Company purchased eleven hotels comprising 2,215 rooms and 112,600 square feet of meeting space. These hotels expanded the Company's presence in the northwest U.S. from three states to five and from zero state capital cities to four. States that now have a Cavanaugh's Hotel include Washington, Oregon, Idaho, Montana, and Utah. In April of 1998 the Company completed a successful Initial Public Offering, raising \$89 million, which was used to pay down debt, fund acquisitions, and for other corporate purposes.

"This was an important year in the long history of our Company," said Donald K. Barbieri, President and CEO of Cavanaugh's Hospitality Corporation. "We've had record growth and have achieved greater synergy between our various divisions of our Company as well as with our promotional partners. We see great opportunities in the next year to use our entertainment division as a source of room nights. We sell tickets and present Broadway musicals, concerts, and other events in the cities in which we own hotels. Baby-boomers are looking for two to four day escapes that many times are combined with business. We can offer accommodations and entertainment, all through one source." Barbieri added, "Our partnership with Alaska/Horizon Airlines is building repeat customers faster than we had anticipated, and we believe we are experiencing significant growth in our brand's name recognition." In 1997, guests who paid the qualifying rate and received airmiles occupied 4% of total Comparable Hotel room nights. For the same period in 1998, at the Comparable Hotels, guests who received airmiles occupied 8% of the total room nights.

For the year, Total Revenues increased 61.3% from \$53.5 million in 1997 to \$86.3 million in 1998. Total Hotel Room Revenue increased 81.1% from \$25.8 million to \$46.7 million. EBITDA increased 66.4% from \$15.9 million to \$26.4 million. Room Revenue for Comparable Hotels increased 9.4% from \$25.6 million to \$28.0 million while REVPAR for the Comparable Hotels increased 7.9% from \$46.62 to \$50.30. The variance between increases in Room Revenue to REVPAR is due to renovations in 1997, which resulted in fewer available rooms for that year.

For the three months ended December 31, 1998, Total Revenues increased 67.9% from \$13.7 million to \$23.0 million. Total Hotel Room Revenue increased 90.9% from \$5.9 million to \$11.3 million in 1998. EBITDA increased 93.4% from \$3.0 million to \$5.9 million. Room Revenue for Comparable Hotels increased 4.4% from \$5.7 million to \$6.0 million while REVPAR increased 1.1% from \$41.77 to \$42.23. During the fourth quarter the Company experienced reduced occupancy due in part to the removal of contract business at two of the company's properties in June of 1998. This allowed the company to fill those rooms

in the summer months with higher room rate business, but it resulted in reduced occupancies in the normally low seasons. The Company believes that overall this is advantageous as it cuts labor costs while maintaining or increasing revenue on an annualized basis.

In 1998 the Company increased its level of customer service in order to meet the desires of a customer base that continues to choose services in a much more sophisticated manner. Results of this effort were seen in the Company's National Central Reservation Center statistics. In 1997 the call capture rate for calls coming into the Central Reservations Center was 85%. In 1998 it increased to 96%. In 1998, 90% of incoming calls were answered within 20 seconds, up from 75% in the previous year. Commenting on the success in improving the level of service, Jack Lucas, Vice President of the Entertainment Division, said, "We conducted a national search for a leader to implement the best possible service and

were fortunate to hire Stefani Luety, former Director of Ticketing Operations at Carnegie Hall. Our goal was to take our Reservation Center to the next level in terms of cross-selling tickets to various entertainment venues around the northwest in conjunction with our hotel rooms, and to do it efficiently. An example, in 1998 we sold out five shows of Garth Brooks, the first one in 24 minutes, which was the fastest sellout in Spokane's entertainment history." In 1999 the Central Reservation Center will undergo an expansion from 35 stations to 75. Lucas added, "In the coming year we will expand on our current capability to purchase tickets on the internet to all our events. That, accompanied by the ability to reserve hotel rooms on the internet, will create one stop shopping for the growing number of people who choose to purchase their travel and entertainment on-line.

For the year, revenues from Rental Operations, which receives income from owned commercial assets, including four mixed use office and retail projects and one retail mall, increased 10.4% from \$6.5 million in 1997 to \$7.2 million in 1998. "Our office and retail operations in Spokane, Washington are performing well and have signed major new tenants including The Travelers, Starbucks and Red Robin," said Tom Barbieri, Executive Vice President of Operations. "In August of 1999 the first phase of a \$110 million retail development, anchored by Nordstrom and a 24 screen AMC Theater complex, will be completed by an unrelated company within one block of three of our buildings in downtown Spokane. We are already seeing increased demand for office and retail space in our properties as a result of this major investment in Spokane's downtown."

The Company plans to renovate newly acquired hotels throughout 1999. Approximately \$8.0 million in renovations to newly acquired hotels was started in 1998 and will be completed in 1999. The Company allocates 4% of revenues each year to further renovate its facilities and keep them in excellent condition. "We have diverse hotel assets in terms of physical layout, but when entering a room we want the customer to feel like they are in a Cavanaugh's Hotel, whether they are in Seattle or Pocatello," explained Don Barbieri. "With our assets, both physical and human, we believe that in an economy experiencing moderate growth we can be extremely competitive."

Cavanaugh's Hospitality Corporation serves the Northwest with 3,933 full service hotel rooms in 19 hotels, 47 restaurants and lounges and 196,900 square feet of meeting space. In addition, Cavanaugh's provides entertainment services through G&B Select-a-Seat, a computerized ticket company with over 20 outlets, and G&B Presents, a Broadway and special event presenting company. Cavanaugh's also manages 3.1 million square feet of third party property management, 2,200 residential units, and owns 590,000 square feet of office and retail space.

Statements in this release may be construed to be forward looking and are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward looking statements involve risks and uncertainties, including without limitation, risks relating to the operation and acquisition of hotels, the availability of capital to finance growth, and the historical cyclicity of the lodging industry, as well as the other matters disclosed in the documents filed by the Company with the Securities & Exchange Commission. SOURCE Cavanaugh's Hospitality Corporation.

Cavanaugh's Hospitality Corporation
Summary Statement of Income
(unaudited)
(in thousands except EPS and hotel statistics)

Three months ended December 31,

	F/Y 98	F/Y 97	\$ Change	% Change
Revenues:				
Hotels & Restaurants				
Rooms	11,323	5,930	5,393	90.9%
Food and Beverage	7,764	4,043	3,721	92.0%
Other	1,048	674	374	55.5%
Total Hotels and Restaurants	20,135	10,647	9,488	89.1%
Entertainment, Management & Services	1,073	1,396	(323)	-23.1%
Rental Operations	1,840	1,683	157	9.3%
Total Revenues	23,048	13,726	9,322	67.9%
Operating Expenses:				
Hotels & Restaurants				
Rooms	3,482	1,832	1,650	90.1%
Food and Beverage	6,015	3,355	2,660	79.3%
Other	436	296	140	47.3%
Total Hotels and Restaurants	9,933	5,483	4,450	81.2%
Entertainment, Management & Services	630	1,004	(374)	-37.3%
Rental Operations	398	382	16	4.2%
Total Direct Expenses	10,961	6,869	4,092	59.6%
Undistributed Operating Expenses:				
Selling, general & administrative	3,075	1,952	1,123	57.5%
Property Operating Costs	3,155	1,876	1,279	68.2%
Depreciation and Amortization	1,758	1,203	555	46.1%
Total Undistributed Operating Expenses	7,988	5,031	2,957	58.8%
Total Expenses	18,949	11,900	7,049	59.2%
Operating Income	4,099	1,826	2,273	124.5%
Other Income (Expense):				
Interest Expense	(2,137)	(2,159)	22	-1.0%
Interest Income	75	94	(19)	-20.2%
Other Income	84	0	84	0.0%
Minority Interest in Partnerships	(8)	28	(36)	-128.6%
Income Before Income Taxes	2,113	(211)	2,324	1101.4%
Income Tax Provision	761	(72)	833	-1156.9%
Income Before Extraordinary Item	1,352	(139)	1,491	1072.7%
Extraordinary Expense After Tax Effect	0	0	0	
Net Income After Extraordinary Item	1,352	(139)	1,491	1072.7%
EBITDA	5,857	3,029	2,828	93.4%
EBITDA %	25.4%	22.1%	3.3%	15.0%
Weighted Shares of Stock Outstanding	12,652	7,084		
Earnings Per Share	0.11	(0.02)	0.13	644.4%
Hotel Statistics: Comparable hotels (hotels owned > 1 year)				
Occupancy	51.9%	57.4%		-5.5%
Average Rate	\$81.31	\$72.73	\$8.58	11.8%
RevPAR	\$42.23	\$41.77	\$0.46	1.1%
Room Revenue	\$5,990	\$5,737	\$253	4.4%

Cavanaugh's Hospitality Corporation
Summary Statement of Income

(in thousands except EPS and hotel statistics)

	Year ended December 31,			
	FY 98	FY 97	\$ Change	% Change
	<i>(unaudited)</i>			
Revenues:				
Hotels & Restaurants				
Rooms	46,688	25,775	20,913	81.1%
Food and Beverage	24,400	14,345	10,055	70.1%
Other	4,084	2,698	1,386	51.4%
Total Hotels and Restaurants	75,172	42,818	32,354	75.6%
Entertainment, Management & Services	4,006	4,220	(214)	-5.1%
Rental Operations	7,155	6,482	673	10.4%
Total Revenues	86,333	53,520	32,813	61.3%
Operating Expenses:				
Hotels & Restaurants				
Rooms	12,562	7,009	5,553	79.2%
Food and Beverage	19,588	11,848	7,740	65.3%
Other	1,802	1,100	702	63.8%
Total Hotels and Restaurants	33,952	19,957	13,995	70.1%
Entertainment, Management & Services	2,685	2,626	59	2.2%
Rental Operations	1,570	1,479	91	6.2%
Total Direct Expenses	38,207	24,062	14,145	58.8%
Undistributed Operating Expenses:				
Selling, general & administrative	11,569	7,855	3,714	47.3%
Property Operating Costs	10,132	5,721	4,411	77.1%
Depreciation and Amortization	6,115	4,806	1,309	27.2%
Total Undistributed Operating Expenses	27,816	18,382	9,434	51.3%
Total Expenses	66,023	42,444	23,579	55.6%
Operating Income	20,310	11,076	9,234	83.4%
Other Income (Expense):				
Interest Expense	(8,127)	(8,950)	823	-9.2%
Interest Income	346	370	(24)	-6.5%
Other Income	90	346	(256)	-74.0%
Minority Interest in Partnerships	(255)	40	(295)	-737.5%
Income Before Income Taxes	12,364	2,882	9,482	329.0%
Income Tax Provision	4,310	983	3,327	338.5%
Income Before Extraordinary Item	8,054	1,899	6,155	324.1%
Extraordinary Expense After Tax Effect	546	0	546	
Net Income After Extraordinary Item	7,508	1,899	5,609	295.4%
EBITDA	26,425	15,882	10,543	66.4%
EBITDA %	30.6%	29.7%	0.9%	3.1%
Weighted Shares of Stock Outstanding	11,347	7,084		
Earnings Per Share	0.71	0.27	0.44	164.8%
Hotel Statistics: Comparable hotels (hotels owned > 1 year)				
Occupancy	61.3%	62.5%		-1.3%
Average Rate	\$82.07	\$74.54	\$7.53	10.1%
RevPAR	\$50.30	\$46.62	\$3.68	7.9%
Room Revenue	\$27,963	\$25,569	\$2,394	9.4%