



RED LION®
HOTELS

October 26, 1998

Cavanaugh's Hospitality Corporation Announces Record Third Quarter Results

SPOKANE, WA -- Cavanaugh's Hospitality Corporation (NYSE:CVH) today reported record results for the third quarter and nine months ending September 30, 1998. The third quarter results were the largest revenues and net income in the history of the Company. "All divisions of the Company were very profitable," said Donald K. Barbieri, President and CEO. "Our new acquisitions are helping us capture new markets and our Entertainment and Real Estate Services Divisions are continuing to grow and contribute to earnings."

The Company reported a third quarter net income of \$4.1 million, or \$.32 per share, a 166% increase from \$1.6 million, or \$.22 per share for the same period a year ago. Total Revenues for the Company rose \$12 million or 77.3% from \$15.6 million in the third quarter of 1997 to \$27.6 million for the comparable period in 1998. EBITDA (earnings before interest, income taxes, depreciation and amortization) a traditional measure of hotel company earnings, rose \$4.3 million, or 73.7% from \$5.8 million in the third quarter of 1997 to \$10.0 million in the third quarter of 1998. EBITDA as a percentage of revenue was 36.4% for the 1998 period.

"These results are particularly significant," said Barbieri, "in that the flow through of new revenues generated from our acquisitions was outstanding. In addition, our Entertainment Division and our Real Estate Services Division began new growth during the period with the Entertainment Division adding both Yakima, Washington and Billings, Montana to its presentation venue list. These new cities will add customers and name penetration as the Company continues to use entertainment to add synergy to its hotel operations. The Real Estate Services Division concluded significant lease negotiations in the quarter that will bring \$9.98 million dollars of revenue to the Company in the initial term of these new leases."

On October 16, 1998 the Company announced new leases with The Northern Trust Bank (Nasdaq:NRS), Red Robin Restaurants, Starbucks Corporation (Nasdaq:SBUX), The Buckle (NYSE:BKE) and Magic Diamond Casino. In addition, the Company announced new subleases with Travelers Property Casualty (NYSE:TAP) for approximately 38,000 square feet and additional lease options, exercisable by Travelers in early 1999, for an additional 27,000 square feet. "While both the Entertainment and Real Estate Services Divisions will not likely grow at the same percentage growth of the Hotel and Restaurant Division," said Barbieri, "the synergy and stability of their growth will have great earnings impact on the Company."

"This year has been a great year for the Company," said Barbieri. "In the nine months ending September 30, 1998 we have seen income before extraordinary items increase 228.8% to \$6.7 million, or \$.61 per share from \$2.0 million in the first nine months of 1997, or \$.29 per share for the comparable period of 1997. EBITDA for the nine months rose 60.0% from \$12.9 million to \$20.6. During the third quarter, while our average daily rate (ADR) for Comparable hotels (hotels owned for over one year) grew 10.8% to \$87.36, our occupancy actually decreased by 7.8 percentage points to 69.2% due to one time events in 1997 and an increase in rooms available due to a chain-wide room renovation in 1997 which took a number of rooms out of service. In addition, one of the hotels in the comparison group dropped a large block of lower rate contract rooms in the period, choosing to replace them with higher rate corporate rooms for future months. Despite the drop in occupancy, room revenue in the period for the Comparable hotels were up 2.1%. The same store REVPAR growth in the fourth quarter has returned to the double digit level through the first three weeks of the October. On a quarter to date basis through the first three weeks of October, the Company has achieved a Comparable hotel REVPAR growth of 21.7% with occupancy growing from 64.1% in 1997 to 68.6% and ADR growing from \$74.34 in 1997 to \$84.52 in 1998. I am very pleased with where the fourth quarter is going and comfortable that we will meet or exceed the analysts consensus estimates for the quarter and year."

During the third quarter the Company closed on the acquisitions of four hotels comprised of 651 rooms from Sunstone Hotel Investors, Inc. The Company also entered into an agreement to purchase the 177 room former Olympia Holiday Inn Select, in Olympia, Washington. That acquisition is projected to close in December, 1998. The four hotels purchased during the period are located in Boise, Twin Falls, and Pocatello, Idaho, and Helena, Montana and they position the Company as the largest owner-manager of a full-service hotel brand in Idaho and Montana. They also fill in a region of the Northwest that previously was void of the Cavanaugh's brand, providing greater connectivity throughout the chain which now stretches from Seattle, Washington to Salt Lake City, Utah and from Helena, Montana to Portland, Oregon.

"Looking ahead to 1999," said Barbieri, "we will have an exciting year with continued growth as our 1998 acquisitions have a full year to perform under our management and we continue to acquire leading full service hotels in key markets. When we went public in April of 1998, we said our goal was to become the dominant full service hotel company in the Northwest, with our real estate services and entertainment divisions providing great synergy to that effort. I'm proud that we have walked the talk in

1998. The successes we are having in each market segment of our hotel division and the growth in entertainment and real estate division operations bodes well for 1999 and beyond."

Cavanaugh's Hospitality Corporation serves the Northwest with 3,756 full service hotel rooms in 18 hotels (exclusive of the recently announced Olympia, Washington facility now under contract), including 45 restaurants and lounges and 179,900 square feet of meeting space. G&B Real Estate Services is the real estate division of Cavanaugh's Hospitality Corporation and manages 590,000 square feet of Company owned commercial real estate and 3.1 million square feet of third party owned commercial real estate and 2,200 units of third party owned apartment and condominium properties. In addition, CVH provides entertainment services through G&B Select-a-Seat, a 20-outlet computerized ticket company, and G&B Presents, a Broadway and special event presenting company.

No assurance can be given that earnings will not be lower than management currently anticipates. 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 cyclical nature 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)

	Three months ended September 30,			
	F/Y 98	F/Y 97	\$ Change	% Change
Revenues:				
Hotels & Restaurants				
Rooms	16,813,042	8,425,958	8,387,085	99.5%
Food and Beverage	6,777,939	3,824,049	2,953,890	77.2%
Other	1,288,973	717,601	571,371	79.6%
Total Hotels and Restaurants	24,879,954	12,967,608	11,912,346	91.9%
Entertainment, Management & Services	907,022	1,015,006	(107,984)	-10.6%
Rental Operations	1,801,374	1,579,036	222,338	14.1%
Total Revenues	27,588,350	15,561,650	12,026,700	77.3%
Operating Expenses:				
Hotels & Restaurants				
Rooms	4,034,543	1,983,222	2,051,321	103.4%
Food and Beverage	5,412,203	3,172,815	2,239,389	70.6%
Other	590,020	328,608	261,412	79.6%
Total Hotels and Restaurants	10,036,766	5,484,645	4,552,121	83.0%
Entertainment, Management & Services	639,872	544,580	95,292	17.5%
Rental Operations	439,195	359,116	80,079	22.3%
Total Direct Expenses	11,115,834	6,388,341	4,727,493	74.0%
Undistributed Operating Expenses:				
Selling, general & administrative	3,427,310	2,102,565	1,324,745	63.0%
Property Operating Costs	3,000,887	1,289,523	1,711,364	132.7%
Depreciation and Amortization	1,621,233	1,308,537	312,696	23.9%
Total Undistributed Operating Expenses:	8,049,430	4,700,626	3,348,805	71.2%

Total Expenses:	19,165,264	11,088,967	8,076,297	72.8%
Operating Income:	8,423,086	4,472,683	3,950,403	88.3%
Other Income (Expense):				
Interest Expense	(1,936,413)	(2,190,372)	253,959	-11.6%
Interest Income	75,163	105,729	(30,566)	-28.9%
Other Income	5,600	0	5,600	0.0%
Minority Interest in Partnerships	(202,568)	(27,705)	(174,863)	631.2%
Income Before Income Taxes	6,364,868	2,360,335	4,004,533	169.7%
Income Tax Provision	2,227,704	802,514	1,425,190	177.6%
Income Before Extraordinary Item	4,137,164	1,557,821	2,579,343	165.6%
Extraordinary Exp after Tax Effect	16,175	0	16,175	
Net after Extraordinary Item	4,120,988	1,557,821	2,563,167	164.5%
EBITDA	10,044,319	5,781,220	4,263,099	73.7%
EBITDA %	36.41%	37.15%	-0.74%	-2.0%
Weighted Shares of Stock Outstanding	12,983,264	7,084,253		
Earnings per Share	0.32	0.22	0.10	44.9%
Hotel Statistics: Comparable hotels (hotels owned > 1 year)				
Occupancy	69.2%	77.0%		-7.8%
Average Rate	\$87.36	\$78.85	\$8.51	10.8%
RevPAR	\$60.48	\$60.73	(\$0.25)	-0.4%

Cavanaugh's Hospitality Corporation
Summary Statement of Income
(unaudited)

	Nine months ended September 30,			
	F/Y 98	F/Y 97	\$ Change	% Change
Revenues:				
Hotels & Restaurants				
Rooms	35,365,398	19,844,862	15,520,536	78.2%
Food and Beverage	16,636,288	10,302,449	6,333,839	61.5%
Other	3,035,482	2,024,411	1,011,071	49.9%
Total Hotels and Restaurants	55,037,168	32,171,722	22,865,446	71.1%
Entertainment, Management & Services	2,933,072	2,824,322	108,750	3.9%
Rental Operations	5,314,984	4,799,262	515,722	10.7%
Total Revenues	63,285,224	39,795,305	23,489,918	59.0%
Operating Expenses:				
Hotels & Restaurants				
Rooms	9,079,676	5,175,984	3,903,693	75.4%
Food and Beverage	13,572,610	8,492,653	5,079,957	59.8%
Other	1,366,568	803,597	562,971	70.1%
Total Hotels and Restaurants	24,018,854	14,472,233	9,546,621	66.0%

Entertainment, Management & Services	2,054,680	1,622,218	432,462	26.7%
Rental Operations	1,171,599	1,096,982	74,617	6.8%
Total Direct Expenses	27,245,133	17,191,433	10,053,699	58.5%
Undistributed Operating Expenses:				
Selling, general & administrative	8,493,474	5,903,705	2,589,768	43.9%
Property Operating Costs	6,976,980	3,845,034	3,131,946	81.5%
Depreciation and Amortization	4,357,194	3,604,143	753,051	20.9%
Total Undistributed Operating Expenses:	19,827,648	13,352,883	6,474,765	48.5%
Total Expenses:	47,072,781	30,544,316	16,528,464	54.1%
Operating Income:	16,212,443	9,250,989	6,961,454	75.3%
Other Income (Expense):				
Interest Expense	(5,990,153)	(6,790,830)	800,677	-11.8%
Interest Income	271,141	275,651	(4,510)	-1.6%
Other Income	5,600	346,266	(340,666)	-98.4%
Minority Interest in Partnerships	(247,133)	11,647	(258,780)	-2221.8%
Income Before Income Taxes	10,251,898	3,093,723	7,158,175	231.4%
Income Tax Provision	3,549,295	1,054,961	2,494,334	236.4%
Income Before Extraordinary Item	6,702,603	2,038,762	4,663,841	228.8%
Extraordinary Exp after Tax Effect	546,378	0	546,378	
Net after Extraordinary Item	6,156,225	2,038,762	4,117,463	202.0%
EBITDA	20,569,637	12,855,133	7,714,505	60.0%
EBITDA %	32.50%	32.30%	0.20%	0.6%
Weighted Shares of Stock Outstanding	10,906,762	7,084,253		
Earnings per Share	0.61	0.29	0.33	113.5%
Hotel Statistics: Comparable hotels (hotels owned > 1 year)				
Occupancy	64.5%	64.2%		0.2%
Average Rate	\$82.28	\$75.26	\$7.02	9.3%
RevPAR	\$53.06	\$48.35	\$4.71	9.7%