

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K/A

AMENDMENT NO. 1

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported: July 31, 1998)

CAVANAUGHS HOSPITALITY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

WASHINGTON

(State or Other Jurisdiction of Incorporation)

001-13957

91-1032187

(Commission File Number)

(I.R.S. Employer
Identification

No.)

201 W. North River Drive, Suite 100
Spokane, Washington 99201
(Address of Principal Executive Offices)
(Zip Code)

(509) 459-6100
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

ITEM 2.

The undersigned Registrant hereby amends, as and to the extent set forth below the following item, financial statements, exhibits or other portions of the Current Report on Form 8-K for an event which occurred on July 31, 1998.

ITEM 7. Financial Statements and Exhibits

(a) Financial Statements of the property acquired

See Exhibits 99.1 and 99.2.

(b) Pro forma financial information

See Exhibit 99.3.

(c) Exhibits

Exhibit 99.1: Audited combined financial statements of Boise Park Suites, Best Western Colonial Park, Best Western Canyon Springs and Quality Inn as of July 31, 1998 and for the period from October 15, 1997 to July 31, 1998.

Exhibit 99.2: Unaudited combined financial statements of Boise Park Suites, Best Western Colonial Park, Best Western Canyon Springs and Quality Inn as of June 30, 1998 and for the six months ended June 30, 1998 and 1997.

Exhibit 99.3: Pro forma unaudited combined financial statements of Cavanaugh's Hospitality Corporation and Boise Park Suites, Best Western Colonial Park, Best Western Canyon Springs and Quality Inn as of June 30, 1998 and October 31, 1997 and for the six months ended June 30, 1998 and the year ended October 31, 1997.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunder duly authorized.

Dated: October 13, 1998
CORPORATION

CAVANAUGHS HOSPITALITY

By: /s/ Art Coffey

President/Chief

Executive Vice

Financial Officer

EXHIBIT 99.1

[PricewaterhouseCoopers LLP - Spokane, Washington letterhead]

Report of Independent Accountants

September 25, 1998

To the Members of Sunstone Hotels, L.L.C.:

In our opinion, the accompanying combined balance sheet and the related combined statements of income and comprehensive income, changes in members' equity, and cash flows present fairly, in all material respects, the financial position of Boise Park Suites, Best Western Colonial Park, Best Western Canyon Springs and Quality Inn ("The Hotels") at July 31, 1998, and the results of their operations and their cash flows for the period October 15, 1997 to July 31, 1998, in conformity with generally accepted accounting principles. The Hotels were owned by Sunstone Hotels, L.L.C. ("Sunstone"). These financial statements are the responsibility of Sunstone's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

*/s/PricewaterhouseCoopers
LLP*

**THE HOTELS
COMBINED BALANCE SHEET
at July 31, 1998**

ASSETS

Current assets:

Cash and cash equivalents	\$
263,967	
Accounts receivable, less allowance for doubtful accounts of \$6,292	
316,451	
Receivable from affiliate	
206,968	
Inventories	
79,096	
Prepaid expenses	
78,562	

Total current assets	
945,044	
Property and equipment, net	
33,322,864	
Other assets, net	
63,247	

Total assets	
\$34,331,155	

=====

LIABILITIES AND MEMBERS' EQUITY

Current liabilities:

Accounts payable	\$
91,216	
Accrued expenses	
46,745	
Accrued property taxes	
381,400	

Total current liabilities	
519,361	
Commitment (Note 5)	
Members' equity	
33,811,794	

Total liabilities and members' equity	
\$34,331,155	

=====

The accompanying notes are an integral part of the combined financial statements.

THE HOTELS
STATEMENT OF INCOME AND COMPREHENSIVE INCOME

for the period October 15, 1997 to July 31, 1998

Revenues:	
Hotels and restaurants:	
Rooms	\$
7,201,560	
Food and beverage	
3,382,690	
Other	
429,790	

Total hotels and restaurants revenues	
11,014,040	

Operating expenses:	
Direct:	
Rooms	
1,859,814	
Food and beverage	
2,666,058	
Other	
240,125	

Total direct	
4,765,997	

Indirect:	
Selling, general and administrative	
1,840,510	
Property operating costs	
1,583,187	
Depreciation and amortization	
1,062,269	

Total indirect	
4,485,966	

Total operating expenses	
9,251,963	

Net income and comprehensive income	\$
1,762,077	
=====	

The accompanying notes are an integral part of the combined financial statements.

THE HOTELS
STATEMENT OF CHANGES IN MEMBERS' EQUITY

for the period October 15, 1997 to July 31, 1998

Balance, October 15, 1997	\$34,131,283
Net income	1,762,077
Contributions from members	648,609
Distributions to members (2,730,175)	
Balance, July 31, 1998	----- \$33,811,794 =====

The accompanying notes are an integral part of the combined financial statements.

**THE HOTELS
STATEMENT OF CASH FLOWS**

for the period October 15, 1997 to July 31, 1998

Operating activities:	
Net income	\$ 1,762,077
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	1,062,269
Change in:	
Accounts receivable	
(36,050)	
Inventories	
(18,135)	
Prepaid expenses	
(66,957)	
Accounts payable	
(43,910)	
Accrued expenses	
(44,273)	
Accrued property taxes	
(64,807)	

Net cash provided by operating activities	2,550,214

Investing activities:	
Additions to property and equipment	
(195,239)	
Acquisition of franchise rights	
(53,544)	

Net cash used in investing activities	
(248,783)	

Financing activities:	
Distributions to members	
(2,730,175)	
Contributions from members	648,609

Net cash used in financing activities	
(2,081,566)	

Change in cash and cash equivalents:	
Net increase in cash and cash equivalents	219,865
Cash and cash equivalents at beginning of period	44,102

Cash and cash equivalents at end of period	\$ 263,967
	=====

The accompanying notes are an integral part of the combined financial statements.

THE HOTELS
NOTES TO FINANCIAL STATEMENTS

1. OWNERSHIP AND FINANCIAL STATEMENT PRESENTATION:

On October 15, 1997, Sunstone Hotels, L.L.C. ("Sunstone" or "the Company") acquired all of the outstanding stock of Kahler Realty Corporation ("Kahler"). The acquisition was accounted for as a purchase. Therefore, the fair value of the assets acquired and liabilities assumed were recorded by Sunstone. At the date of acquisition, Kahler owned 17 hotels, including the following hotels:

-- Boise Park Suites (Boise, Idaho) -- Best Western Colonial Park (Helena, MT) -- Best Western Canyon Springs (Twin Falls, Idaho) -- Quality Inn (Pocatello, Idaho)

These four hotels, collectively referred to as "The Hotels", were sold to Cavanaugh's Hospitality Limited Partnership effective July 31, 1998. Sunstone owns properties other than The Hotels; however, the combined financial statements presented herein reflect the operations and activities only of The Hotels. The statement of income presented herein includes all of the related costs of doing business including an allocation of certain general corporate expenses of Sunstone which were not directly related to The Hotels including certain corporate executives' salaries and other corporate expenses. These allocations were based on a variety of factors, dependent upon the nature of the costs being allocated, including revenues and number of available rooms. Management believes these allocations were made on a reasonable basis. No corporate debt incurred by Sunstone has been allocated to The Hotels. Therefore, no debt or associated interest expense is included in these combined financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with remaining maturities at the time of purchase of three months or less. The Hotels place their cash and cash equivalents with high credit quality institutions. At times, cash balances may be in excess of federal insurance limits.

Inventories

Inventories consist primarily of food and beverage products which are valued at the lower of average cost or net realizable value.

THE HOTELS
NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings 5-35 years Equipment, furniture and fixtures 7-12 years

Major additions and betterments are capitalized. Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. When items are disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is recognized in operations.

When the Company acquired Kahler, the total purchase price was allocated to the 17 acquired hotels based upon the estimated fair value of each individual hotel. Management of the Company periodically reviews the aggregate net carrying value of property and equipment to determine whether there has been a permanent impairment in carrying value. At July 31, 1998, no such impairment was deemed to exist.

Franchise Fees

Franchise fees, which are included in other assets, are stated at cost and amortized using the straight-line method over the franchise contract life of 10 years. Accumulated amortization at July 31, 1998 was \$1,297.

Income Taxes

The Hotels are owned by Sunstone Hotels, L.L.C., a limited liability corporation. Sunstone's members are responsible for federal and state income taxes on The Hotels' earnings. Therefore, no provision for income taxes is recorded in these combined financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE HOTELS
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. PROPERTY AND EQUIPMENT:

Property and equipment as of July 31, 1998 is as follows:

Land	\$
3,211,810	
Buildings and improvements	
29,298,012	
Equipment, furniture and fixtures	
1,874,014	

34,383,836	
Less accumulated depreciation	
1,060,972	

\$33,322,864	
=====	

4. OPERATING LEASE INCOME:

Operating lease income is generated from non-related businesses which rent space on the hotel property. During the period ended July 31, 1998, approximately \$50,000 was recognized as lease income.

Future minimum lease income under existing noncancellable leases at July 31, 1998 is as follows:

Year Ending July 31,

1999
\$33,822
2000
12,000
2001
2,000

\$47,822
=====

5. COMMITMENT:

The Hotels pay approximately one percent of gross revenues per month to an affiliated management company to manage The Hotels. The agreement is renewed annually. Total management fee expense incurred by The Hotels was approximately \$83,000 for the period ended July 31, 1998. In connection with the sale of The Hotels (see Note 7), this management agreement was terminated.

THE HOTELSNOTES TO FINANCIAL STATEMENTS, CONTINUED

6. EMPLOYEE BENEFITS:

Sunstone sponsors a 401(k) retirement plan for substantially all of their employees. Sunstone matches 25% of all eligible employee contributions up to 6% of compensation. Contributions to this plan by Sunstone of approximately \$13,000 in 1998 were allocated to The Hotels.

Sunstone also sponsors a bonus/profit-sharing plan whereby a bonus may be earned by certain employees and management based upon guest service scores. Contributions to this plan were approximately \$166,000 in 1998.

7. SALE OF THE HOTELS:

Effective July 31, 1998, Cavanaugh's Hospitality Limited Partnership ("CHLP") acquired all The Hotels' property and equipment. CHLP also acquired the rights, title and interest in all hotel contracts, space leases, permits, equipment leases and inventories of The Hotels. The sole general partner of CHLP, Cavanaugh's Hospitality Corporation ("CHC") is located in the state of Washington. CHC is a hotel operating company that owns, operates, acquires, develops, renovates and repositions full-service hotels located in the Northwest.

EXHIBIT 99.2

**UNAUDITED COMBINED FINANCIAL STATEMENTS OF
BOISE PARK SUITES, BEST WESTERN COLONIAL PARK,
BEST WESTERN CANYON SPRINGS AND QUALITY INN ("THE HOTELS")**

as of June 30, 1998 and for the six months ended June 30, 1998 and 1997

**THE HOTELS
BALANCE SHEET
at June 30, 1998 (Unaudited)**

ASSETS

Current assets:

Cash and cash equivalents	\$
330,174	
Accounts receivable, less allowance for doubtful accounts of \$6,292	
437,368	
Receivable from affiliate	
400,745	
Inventories	
109,100	
Prepaid expenses	
37,738	

Total current assets	
1,315,125	
Property and equipment, net	
33,429,848	
Other assets	
85,500	

Total assets	
\$34,830,473	

=====

LIABILITIES AND MEMBERS' EQUITY

Current liabilities:

Accounts payable	\$
165,777	
Accrued payroll and related benefits	
453,201	
Accrued expenses	
108,207	
Accrued property taxes	
364,684	

Total current liabilities	
1,091,869	

Total liabilities	
1,091,869	
Members' equity	
33,738,604	

Total liabilities and members' equity	
\$34,830,473	

=====

THE HOTELS
STATEMENTS OF INCOME AND COMPREHENSIVE
INCOME

for the six months ended June 30, 1998 and 1997(Unaudited)

	1998	1997
	-----	-----
Revenues:		
Hotels and restaurants:		
Rooms	\$4,678,267	\$4,747,304
Food and beverage	2,145,053	2,405,424
Other	273,768	213,766
	-----	-----
Total hotels and restaurants revenues	7,097,088	7,366,494
	-----	-----
Operating expenses:		
Direct:		
Rooms	1,219,991	1,126,980
Food and beverage	1,672,434	1,730,256
Other	153,858	100,663
	-----	-----
Total direct	3,046,283	2,957,899
	-----	-----
Indirect:		
Selling, general and administrative	1,226,869	1,802,223
Property operating costs	1,054,767	503,762
Depreciation and amortization	636,927	697,500
	-----	-----
Total indirect	2,918,563	3,003,485
	-----	-----
Total operating expenses	5,964,846	5,961,384
	-----	-----
Operating income	1,132,242	1,405,110
Other expense:		
Interest	--	
(1,202,835)		
	-----	-----
Income before income taxes	1,132,242	202,275
Provision for income taxes	--	
(80,910)		
	-----	-----
Net income and comprehensive income	\$1,132,242	\$ 121,365
	=====	=====

THE HOTELS
STATEMENTS OF CASH
FLOWS

for the six months ended June 30, 1998 and 1997 (Unaudited)

	1998	1997
	-----	-----
Operating activities:		
Net income	\$1,132,242	\$ 121,365
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	636,927	697,500
Change in:		
Accounts receivable	(90,074)	
(76,748)		
Inventories	186,468	
(1,464)		
Prepaid expenses	50,407	2,214
Other assets	28,348	
Accounts payable	(438,912)	12,725
Accrued payroll and related benefits	69,140	58,186
Accrued property taxes and other expenses	289,942	145,655
	-----	-----
Net cash provided by operating activities	1,864,488	959,433
	-----	-----
Investing activities:		
Additions to property and equipment	(195,239)	
(107,869)		
Acquisition of franchise rights	(53,544)	
	-----	-----
Net cash used in investing activities	(248,783)	
(107,869)		
	-----	-----
Financing activities:		
Net distributions to members	(1,551,037)	
Payments on amounts due affiliates		
(852,737)		
	-----	-----
Net cash used in financing activities	(1,551,037)	
(852,737)		
	-----	-----
Change in cash and cash equivalents:		
Net change in cash and cash equivalents	64,668	
(1,173)		
Cash and cash equivalents at beginning of period	265,506	74,085
	-----	-----
Cash and cash equivalents at end of period	\$ 330,174	\$ 72,912
	=====	=====

THE HOTELS
NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS

as of and for the six months ended June 30, 1998

1. OWNERSHIP AND FINANCIAL STATEMENT PRESENTATION:

On October 15, 1997, Sunstone Hotels, L.L.C. ("Sunstone" or "the Company") acquired all of the outstanding stock of Kahler Realty Corporation ("Kahler"). The acquisition was accounted for as a purchase. Therefore, the fair value of the assets acquired and liabilities assumed were recorded by Sunstone. At the date of acquisition, Kahler owned 17 hotels, including the following hotels:

-- Boise Park Suites (Boise, Idaho) -- Best Western Colonial Park (Helena, MT) -- Best Western Canyon Springs (Twin Falls, Idaho) -- Quality Inn (Pocatello, Idaho)

These four hotels, collectively referred to as "The Hotels", were sold to Cavanaugh's Hospitality Limited Partnership effective July 31, 1998. Sunstone and Kahler owned properties other than The Hotels; however, the combined financial statements presented herein reflect the operations and activities only of The Hotels. The statement of income presented herein includes all of the related costs of doing business including an allocation of certain general corporate expenses of Sunstone in 1998 and Kahler in 1997 which were not directly related to The Hotels including certain corporate executives' salaries and other corporate expenses. These allocations were based on a variety of factors, dependent upon the nature of the costs being allocated, including revenues and number of available rooms. Management believes these allocations were made on a reasonable basis.

Due to the ownership change, the statements of income and cash flows for the six months ended June 30, 1998 and 1997 are not comparable. During the 1997 period, Kahler allocated debt to The Hotels, and therefore, interest expense is recorded for the six months ended June 30, 1997. However, no corporate debt incurred by Sunstone has been allocated to The Hotels. Therefore, no debt or associated interest expense is included during the six months ended June 30, 1998.

THE HOTELS
NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS, CONTINUED

2. INTERIM INFORMATION:

The unaudited combined financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as permitted by such rules and regulations. Management believes that the disclosures included herein are adequate; however, these combined statements should be read in conjunction with the combined financial statements and the notes thereto for the period ended July 31, 1998 which are included elsewhere in this document.

In the opinion of management, these unaudited combined financial statements contain all of the adjustments normal and recurring in nature, necessary to present fairly the financial position of The Hotels at June 30, 1998 and the results of their operations and cash flows for the six months ended June 30, 1998 and 1997. The results of operations for the periods presented may not be indicative of those which may be expected for a full year.

3. INCOME TAXES:

For the six months ended June 30, 1998, The Hotels were owned by Sunstone. Sunstone is a limited liability corporation. Sunstone's members are responsible for federal and state income taxes on The Hotels' earnings. Therefore, no provision for income taxes is recorded in these combined financial statements for the six months ended June 30, 1998.

For the six months ended June 30, 1997, The Hotels were owned by Kahler. Income taxes have been provided in the statement of income for the six months ended June 30, 1997 based upon the estimated effective tax rate applicable to Kahler applied to income before income taxes.

EXHIBIT 99.3

CONDENSED PRO FORMA COMBINED FINANCIAL INFORMATION

The following condensed pro forma combined balance sheets and condensed pro forma combined statements of income, collectively, the "Pro Forma Financial Statements", were prepared by Cavanaugh's Hospitality Corporation ("Cavanaugh's") to illustrate the estimated effects of the business combinations to be accounted for as a purchase under generally accepted accounting principles. Cavanaugh's acquired the Olympus Hotel and Conference Center ("Olympus") on July 1, 1998; however, Cavanaugh's leased Olympus effective June 1, 1998. Effective July 31, 1998, Cavanaugh's acquired the Boise Park Suites, Best Western Colonial Park, Best Western Canyon Springs and Quality Inn (collectively, "The Hotels"). A Form 8-K/A, which included audited financial statements as of and for the year ended December 31, 1997 and pro forma financial statements as of and for the year ended October 31, 1997 and as of and for the three months ended March 31, 1998, was filed with the Securities and Exchange Commission on August 13, 1998 to reflect the Olympus acquisition.

The financial information of Cavanaugh's, Olympus and The Hotels has been combined as if the acquisitions occurred as of the beginning of the period presented for purposes of the condensed pro forma combined statements of income, and as of the balance sheet date, for purposes of the condensed pro forma combined balance sheets. There are no differences between Cavanaugh's, Olympus' and The Hotels' accounting policies which are expected to have a material impact on the Pro Forma Combined Financial Statements. The Pro Forma Financial Statements do not purport to present the combined financial position or results of operations if the combination had occurred at the beginning of the period or to project the combined financial position or results of operations for any future date or period.

The Pro Forma Financial Statements should be read in conjunction with the historical consolidated financial statements, including the notes thereto, of Cavanaugh's, which are included in Cavanaugh's Form S-1 (File No. 333-44491), Cavanaugh's Form 10-Q for the six months ended June 30, 1998, Olympus, which are included in Cavanaugh's Form 8-K/A filed August 13, 1998, and of The Hotels, which are included elsewhere in this document.

The Pro Forma Financial Statements are presented utilizing the purchase method of accounting whereby the excess of the total purchase price over the fair value of the assets acquired is recorded as property and equipment. The combined pro forma results of operations presented herein are not necessarily indicative of the future results of operations.

CONDENSED PRO FORMA COMBINED BALANCE SHEETS

at June 30, 1998(in thousands)

	CHC Historical	Olympus Historical	The Hotels Historical	Pro Forma Adjustments	Pro Forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 6,227				\$ 6,227
Accounts receivable	4,762				4,762
Note receivable	17,112				17,112
Inventories	545				545
Prepaid expenses and deposits	370				370
Total current assets	29,016				29,016
Property and equipment, net	152,701	\$ 19,436	\$ 33,430	\$ (3,104) (A) 12,164 (B)	214,627
Other assets, net	6,351				6,351
Total assets	\$188,068	\$ 19,436	\$ 33,430	\$ 9,060	\$249,994
LIABILITIES AND STOCKHOLDERS', MEMBERS' AND PARTNERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 3,701				\$ 3,701
Accrued payroll and related benefits	1,693				1,693
Accrued interest payable	454				454
Other accrued expenses	3,429				3,429
Long-term debt, due within one year	1,374				1,374
Capital lease obligations, due within one year	519				519
Total current liabilities	11,170				11,170
Long-term debt, due after one year	72,691			\$ 30,326 (C) 31,600 (D)	134,617
Capital lease obligations, due after one year	2,079				2,079
Deferred income taxes	5,415				5,415
Minority interest	4,246				4,246
Total liabilities	95,601			61,926	157,527
Stockholders', members' and partners' equity	92,467	\$ 19,436	\$ 33,430	(52,866)	92,467
Total liabilities and stockholders', members' and partners' equity	\$188,068	\$ 19,436	\$ 33,430	\$ 9,060	\$249,994

See notes to condensed pro forma combined balance sheets and statements of income.

CONDENSED PRO FORMA COMBINED BALANCE SHEETS

at October 31, 1997(in thousands)

	CHC Pro Forma (After Olympus Acquisition) at October 31, 1997 (E)	The Hotels Historical at October 14, 1997	Pro Forma Adjustments	Pro Forma Combined
	-----	-----	-----	-----
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 6,440			\$ 6,440
Accounts receivable	2,806			2,806
Inventories	376			376
Prepaid expenses and deposits	1,128			1,128
Total current assets	----- 10,750			----- 10,750
Property and equipment, net	141,554	\$ 35,654	\$ (5,328)(A)	171,880
Other assets, net	3,400			3,400
Total assets	----- \$155,704 =====	----- \$ 35,654 =====	----- \$ (5,328) =====	----- \$186,030 =====
LIABILITIES AND STOCKHOLDERS', MEMBERS' AND PARTNERS' EQUITY				
Current liabilities:				
Payable to affiliates	\$ 1,333			\$ 1,333
Accounts payable	2,263			2,263
Accrued payroll and related benefits	843			843
Accrued interest payable	741			741
Other accrued expenses	3,618			3,618
Long-term debt, due within one year	4,285			4,285
Capital lease obligations, due within one year	499			499
Total current liabilities	----- 13,582			----- 13,582
Long-term debt, due after one year	125,371		\$ 30,326(C)	155,697
Capital lease obligations, due after one year	2,255			2,255
Deferred income taxes	5,417			5,417
Minority interest	553			553
Total liabilities	----- 147,178		----- 30,326	----- 177,504
Stockholders', members' and partners' equity	8,526	\$ 35,654	(35,654)	8,526
Total liabilities and stockholders', members' and partners' equity	----- \$155,704 =====	----- \$ 35,654 =====	----- \$ (5,328) =====	----- \$186,030 =====

See notes to condensed pro forma combined balance sheets and statements of income.

CONDENSED PRO FORMA COMBINED STATEMENT OF INCOME

for the six months ended June 30, 1998

(in thousands, except per share data)

	CHC Historical	Olympus (F) Historical	The Hotels Historical	Pro Forma Adjustments	Pro Forma Combined
	-----	-----	-----	-----	-----
Revenues:					
Hotels and restaurants:					
Rooms	\$ 18,552	\$ 2,845	\$ 4,678		\$ 26,075
Food and beverage	9,858	787	2,145		12,790
Other	1,747	151	274		2,172
	-----	-----	-----	-----	-----
Total hotels and restaurants	30,157	3,783	7,097		41,037
Entertainment, management and services	2,026				2,026
Rental operations	3,514				3,514
	-----	-----	-----	-----	-----
Total revenues	35,697	3,783	7,097		46,577
	-----	-----	-----	-----	-----
Operating expenses:					
Direct:					
Hotels and restaurants:					
Rooms	5,045	650	1,220		6,915
Food and beverage	8,160	730	1,672		10,562
Other	777		154		931
	-----	-----	-----	-----	-----
Total hotels and restaurants	13,982	1,380	3,046		18,408
Entertainment, management and services	1,415				1,415
Rental operations	732				732
	-----	-----	-----	-----	-----
Total direct expenses	16,129	1,380	3,046		20,555
	-----	-----	-----	-----	-----
Undistributed operating expenses:					
Selling, general and administrative	5,065	491	1,227		6,783
Property operating costs	3,977	652	1,055	\$ (71) (G)	5,455
				(158) (H)	
Depreciation and amortization	2,736	351	637	(286) (I)	
				12 (J)	3,450
	-----	-----	-----	-----	-----
Total undistributed operating expenses	11,778	1,494	2,919	(503)	15,688
	-----	-----	-----	-----	-----
Total expenses	27,907	2,874	5,965	(503)	36,243
	-----	-----	-----	-----	-----
Operating income	7,790	909	1,132	503	10,334

CONDENSED PRO FORMA COMBINED STATEMENT OF INCOME, CONTINUED

for the six months ended June 30, 1998

(in thousands, except per share data)

	CHC Historical -----	Olympus (F) Historical -----	The Hotels Historical -----	Pro Forma Adjustments -----	Pro Forma Combined -----
Other income (expense):					
Interest expense, net of amounts capitalized	\$ (4,054)	\$ (572)	\$	\$ (1,143)(K) (619)(L)	\$ (6,388)
Interest income	196				196
Minority interest in partnerships	(45)				(45)
	-----	-----	-----	-----	-----
Income (loss) before income taxes	3,887	337	1,132	(1,259)	4,097
Income tax provision	1,322			71 (M)	1,393
	-----	-----	-----	-----	-----
Income before extraordinary item	2,565	337	1,132	(1,330)	2,704
Extraordinary item - write-off of deferred loan fees, net of tax	(530)				(530)
	-----	-----	-----	-----	-----
Net income and comprehensive income	\$ 2,035	\$ 337	\$ 1,132	\$ (1,330)	\$ 2,174
	=====	=====	=====	=====	=====
Income per share before extraordinary item	\$ 0.26				\$ 0.27
	=====				=====
Net income per share:					
Basic	\$ 0.21				\$ 0.22
	=====				=====
Diluted	\$ 0.21				\$ 0.22
	=====				=====
Weighted average shares outstanding:					
Basic	9,836				9,836
	=====				=====
Diluted	10,077				10,077
	=====				=====

See notes to condensed pro forma combined balance sheet and statement of income.

CONDENSED PRO FORMA COMBINED STATEMENT OF INCOME

for the year ended October 31, 1997

(in thousands, except per share data)

	CHC Pro Forma (After Olympus Acquisition) for the year ended October 31, 1997 (A)	The Hotels Historical for the twelve months ended October 14, 1997	Pro Forma Adjustments	Pro Forma Combined
	-----	-----	-----	-----
Revenues:				
Hotels and restaurants:				
Rooms	\$ 32,146	\$ 9,475		\$ 41,621
Food and beverage	15,809	4,567		20,376
Other	2,644	411		3,055
	-----	-----	-----	-----
Total hotels and restaurants	50,599	14,453		65,052
Entertainment, management and services	3,842			3,842
Rental operations	6,670			6,670
	-----	-----	-----	-----
Total revenues	61,111	14,453		75,564
	-----	-----	-----	-----
Operating expenses:				
Direct:				
Hotels and restaurants:				
Rooms	8,114	2,262		10,376
Food and beverage	12,913	3,425		16,338
Other	1,066	200		1,266
	-----	-----	-----	-----
Total hotels and restaurants	22,093	5,887		27,980
Entertainment, management and services	2,052			2,052
Rental operations	1,506			1,506
	-----	-----	-----	-----
Total direct expenses	25,651	5,887		31,538
	-----	-----	-----	-----
Undistributed operating expenses:				
Selling, general and administrative	9,820	3,595		13,415
Property operating costs	6,696	1,139	\$ (434) (G)	7,401
Depreciation and amortization	5,502	1,330	(628) (I)	6,204
	-----	-----	-----	-----
Total undistributed operating expenses	22,018	6,064	(1,062)	27,020
	-----	-----	-----	-----
Total expenses	47,669	11,951	(1,062)	58,558
	-----	-----	-----	-----
Operating income	13,442	2,502	1,062	17,006

CONDENSED PRO FORMA COMBINED STATEMENT OF INCOME, CONTINUED

for the year ended October 31, 1997

(in thousands, except per share data)

	CHC Pro Forma (After Olympus Acquisition) for the year ended October 31, 1997 (A)	The Hotels Historical for the twelve months ended October 14, 1997	Pro Forma Adjustments	Pro Forma Combined
	-----	-----	-----	-----
Other income (expense):				
Interest expense, net of amounts capitalized	\$ (11,199)	\$ (2,345)	\$ 59 (N)	\$ (13,485)
Interest income	416			416
Other income	348			348
Minority interest in partnerships	59			59
	-----	-----	-----	-----
Income (loss) before income taxes	3,066	157	1,121	4,344
Income tax provision	1,073	63	448 (O)	1,584
	-----	-----	-----	-----
Net income	\$ 1,993	\$ 94	\$ 673	\$ 2,760
	=====	=====	=====	=====
Pro forma net income per share	\$ 0.28			\$ 0.39
	=====			=====
Number of shares used in the pro forma computation	7,072			7,072
	=====			=====

See notes to condensed pro forma combined balance sheets and statements of income.

NOTES TO CONDENSED PRO FORMA COMBINED BALANCE SHEETS AND STATEMENTS OF INCOME

Cavanaugh's leased the Olympus Hotel and Conference Center ("Olympus") effective June 1, 1998 and purchased the hotel on July 1, 1998. Cavanaugh's filed a Form 8-K/A with the Securities and Exchange Commission on August 13, 1998 which included the audited financial statements of Olympus as of and for the year ended December 31, 1997. The pro forma combined financial statements as of and for the year ended October 31, 1997 and as of and for the quarter ended March 31, 1998 were also included in the Form 8-K/A.

Cavanaugh's acquired The Hotels effective July 31, 1998. The acquisitions of Olympus and The Hotels have been accounted for as purchases.

The pro forma combined balance sheets presented herein reflect the combination of Cavanaugh's, Olympus and The Hotels as if they occurred October 31, 1997 and June 30, 1998.

(A) Represents the historical carrying value of the property and equipment of The Hotels in excess of purchase price. The total purchase price and the historical carrying value of the property and equipment are as follows (in thousands):

	October 31, 1997	June 30, 1998
	-----	-----

Total purchase price	\$ 30,326	\$ 30,326
Historical carrying value of assets acquired	(35,654)	
(33,430)		
	-----	-----
Carrying value in excess of purchase price	\$ (5,328)	\$
(3,104)		
	=====	=====

The purchase price has been allocated to the acquired land, building, furniture and fixtures as follows based upon the estimated fair value of the components (in thousands):

	Amount	Depreciable Life

Land	\$ 10,311	
Buildings	18,195	35 years
Furniture and fixtures	1,820	10 years

	\$ 30,326	
	=====	

**NOTES TO CONDENSED PRO FORMA COMBINED BALANCE SHEETS AND STATEMENTS OF
INCOME, CONTINUED**

(B) Represents the purchase price in excess of the historical carrying value of the property and equipment of Olympus. The total purchase price and the amount in excess of the historical carrying value of the property and equipment at June 30, 1998 are as follows (in thousands):

Total purchase price	\$ 31,600
Historical carrying value of assets acquired (19,436)	

Excess purchase price	\$ 12,164
	=====

The purchase price has been allocated to the acquired land, building, furniture and fixtures as follows based upon the estimated fair value of the components (in thousands):

	Amount	Depreciable Life
-----	-----	
Land	\$ 10,876	
Buildings	18,840	35 years
Furniture and fixtures	1,884	10 years

	\$ 31,600	
	=====	

(C) Represents the amount of the purchase price of The Hotels which will be financed by the Company's revolving line-of-credit agreement.

(D) Represents the amount of the purchase price of Olympus which will be financed by the Company's revolving line-of-credit agreement.

(E) The "CHC Pro Forma" amounts represent the historical financial statements of Cavanaugh's Hospitality Corporation as of and for the year ended October 31, 1997 as adjusted for the acquisition of Olympus which occurred in July 1998. (See the Company's Form 8-K/A which was filed with the Securities and Exchange Commission on August 13, 1998.)

The following income statement adjustments were made to reflect the combination of Cavanaugh's, Olympus and The Hotels as if they occurred at the beginning of the period presented. The combined pro forma results of operations presented herein are not necessarily indicative of the future results of operations of the combined companies.

(F) Represents the historical results of operations of Olympus for the five months ended May 31, 1998. The results of operations of Olympus for the month of June 1998 are included in the "CHC Historical" amounts due to CHC leasing the Olympus Hotel as of June 1, 1998.

**NOTES TO CONDENSED PRO FORMA COMBINED BALANCE SHEETS AND STATEMENTS OF
INCOME, CONTINUED**

(G) Represents the elimination of management fees associated with the management agreement between The Hotels and an affiliated entity which was terminated upon the acquisition by Cavanaugh's.

(H) Represents the elimination of management fees for the five months ended May 31, 1998 associated with the management agreement between Olympus and an affiliated entity which was terminated at June 1, 1998 when Cavanaugh's leased Olympus.

(I) Represents the change in depreciation and amortization expense from the historical amounts for The Hotels based on the depreciation of the purchase price over the estimated remaining lives of the acquired assets (see Note A).

(J) Represents the increase in depreciation and amortization expense from the historical amounts for Olympus based on the depreciation of the purchase price over the estimated remaining lives of the acquired assets (see Note B).

(K) Represents the additional interest expense which would be incurred by Cavanaugh's based on the purchase price of The Hotels, which will be financed under Cavanaugh's revolving line-of-credit agreement. The interest rate used in the pro forma adjustments was 7.538% based upon the current borrowing rate under Cavanaugh's line-of-credit agreement. If the rate increased or decreased by 0.25%, the Company's pro forma interest expense, net income and earnings per share for the six months ended June 30, 1998 would increase or decrease by approximately \$38,000, \$23,000 and \$-0-, respectively.

(L) Represents the additional interest expense which would be incurred by Cavanaugh's based on the purchase price of Olympus, which will be financed under Cavanaugh's revolving line-of-credit agreement. The interest rate used in the pro forma adjustments was 7.538% based upon the current borrowing rate under Cavanaugh's line-of-credit agreement. If the rate increased or decreased by 0.25%, the Company's pro forma interest expense, net income and earnings per share for the six months ended June 30, 1998 would increase or decrease by approximately \$40,000, \$24,000 and \$-0-, respectively.

(M) Represents estimated income taxes at 34% related to The Hotels' and Olympus' historical income before income taxes and the tax effects of pro forma adjustments. As The Hotels and Olympus were not tax-paying entities, there is no income tax provision recorded on the historical financial statements of The Hotels or Olympus.

**NOTES TO CONDENSED PRO FORMA COMBINED BALANCE SHEETS AND STATEMENTS OF
INCOME, CONTINUED**

(N) Represents the reduction in interest expense which would be incurred by Cavanaugh's based on the purchase price of The Hotels, which will be financed under Cavanaugh's revolving line-of-credit agreement. The interest rate used in the pro forma adjustments was 7.538% based upon the current borrowing rate under Cavanaugh's line-of-credit agreement. If the rate increased or decreased by 0.25%, the Company's pro forma interest expense, net income and earnings per share for the 1997 fiscal year would increase or decrease by approximately \$76,000 \$45,000 and \$.01, respectively.

(O) Represents estimated income taxes at 40% related to the pro forma adjustments.

End of Filing