

# WESTCOAST HOSPITALITY CORP

## FORM 10-Q (Quarterly Report)

Filed 8/5/2004 For Period Ending 6/30/2004

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Industry	Hotels & Motels
Sector	Services
Fiscal Year	12/31



UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR (15)d OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-13957

**WESTCOAST HOSPITALITY CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Washington**  
*( State or other jurisdiction of  
incorporation or organization)*

**91-1032187**  
*(I.R.S. Employer  
Identification No.)*

**201 W. North River Drive, Suite 100,  
Spokane, Washington**  
*(Address of principal executive offices)*

**99201**  
*(Zip Code)*

**(509)459-6100**  
*(Registrant's telephone number, including area code)*

Indicated by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 2, 2004 there were 13,060,919 shares of the registrant's common stock outstanding.

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**WESTCOAST HOSPITALITY CORPORATION**

**Form 10-Q**  
**For the Quarter Ended June 30, 2004**

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## PART I – FINANCIAL INFORMATION

Item 1. *Financial Statements*

**WestCoast Hospitality Corporation**  
**Consolidated Balance Sheets (unaudited)**  
**June 30, 2004 and December 31, 2003**

	June 30, 2004	December 31, 2003
(In thousands, except share data)		
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 10,580	\$ 8,121
Restricted cash	4,520	4,952
Accounts receivable, net	10,731	9,306
Inventories	2,035	2,140
Prepaid expenses and other	5,873	2,137
	<hr/>	<hr/>
Total current assets	33,739	26,656
Property and equipment, net	291,533	264,039
Goodwill	28,042	28,042
Intangible assets, net	14,030	14,412
Other assets, net	11,134	20,076
	<hr/>	<hr/>
Total assets	\$378,478	\$353,225
	<hr/>	<hr/>
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 6,166	\$ 6,990
Accrued payroll and related benefits	5,513	4,849
Accrued interest payable	794	775
Advance deposits	494	253
Other accrued expenses	11,102	8,069
Long-term debt, due within one year	4,766	5,667
	<hr/>	<hr/>
Total current liabilities	28,835	26,603
Long-term debt, due after one year	152,507	145,770
Deferred income	8,902	9,279
Deferred income taxes	17,261	16,761
Minority interest in partnerships	2,503	2,623
Debentures due WestCoast Hospitality Capital Trust	47,423	—
	<hr/>	<hr/>
Total liabilities	257,431	201,036
	<hr/>	<hr/>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock - 5,000,000 shares authorized; \$0.01 par value; shares outstanding at December 31, 2003 at \$50 per share liquidation value:		
Series A - 294,118	—	3
Series B - 294,118	—	3
Additional paid-in capital, preferred stock	—	29,406
Common stock - 50,000,000 shares authorized; \$0.01 par value; 13,045,549 and 13,006,361 shares issued and outstanding	130	130
Additional paid-in capital, common stock	84,386	84,196
Retained earnings	36,531	38,451
	<hr/>	<hr/>
Total stockholders' equity	121,047	152,189
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$378,478	\$353,225
	<hr/>	<hr/>

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



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### WestCoast Hospitality Corporation Consolidated Statements of Operations (unaudited) For the Three Months and Six Months Ended June 30, 2004 and 2003

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
(In thousands, except per share data)				
<b>Revenue:</b>				
Hotels and restaurants	\$44,141	\$43,346	\$79,007	\$77,442
Franchise, central services and development	715	888	1,291	1,978
Entertainment	1,833	1,384	5,418	3,985
Real estate	2,171	2,363	4,684	4,665
Corporate services	76	87	166	174
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues	48,936	48,068	90,566	88,244
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Operating expenses:</b>				
Hotels and restaurants	36,608	35,124	70,741	67,755
Franchise, central services and development	325	413	592	892
Entertainment	1,847	1,291	4,648	3,481
Real estate	1,119	1,216	2,504	2,434
Corporate services	74	83	146	160
Depreciation and amortization	3,215	3,157	6,291	5,764
(Gain) loss on asset dispositions	(208)	364	(396)	696
Conversion expenses	—	79	—	367
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total direct expenses	42,980	41,727	84,526	81,549
Undistributed corporate expenses	848	587	1,633	1,327
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenses	43,828	42,314	86,159	82,876
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating income	5,108	5,754	4,407	5,368
<b>Other income (expense):</b>				
Interest expense	(4,083)	(2,713)	(7,370)	(5,355)
Interest income	133	103	228	207
Other income (expense), net	3	(312)	19	(293)
Equity income (loss) in investments, net	(12)	21	8	80
Minority interest in partnerships	1	18	120	131
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income (loss) before income taxes	1,150	2,871	(2,588)	138
<b>Income tax expense (benefit)</b>	345	1,078	(1,045)	113
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net income (loss)</b>	805	1,793	(1,543)	25
Preferred stock dividend	—	(640)	(377)	(1,281)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income (loss) applicable to common shareholders	\$ 805	\$ 1,153	\$ (1,920)	\$ (1,256)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Earnings (loss) per common share — basic and diluted	\$ 0.06	\$ 0.09	\$ (0.15)	\$ (0.10)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Weighted-average shares outstanding:				
Basic	13,046	12,994	13,035	12,993
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Diluted	13,335	13,280	13,035	12,993
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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

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### WestCoast Hospitality Corporation Consolidated Statements of Cash Flows (unaudited) For the Six Months Ended June 30, 2004 and 2003

	Six months ended June 30,	
	2004	2003
	(In thousands)	
<b>Operating activities:</b>		
Net income (loss)	\$ (1,543)	\$ 25
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,291	5,764
(Gain) loss on disposition of property, equipment and other assets	(396)	696
Non-cash reduction of preferred stock resulting in gain	—	(230)
Write-off of deferred loan fees	—	790
Deferred income tax provision	500	700
Minority interest in partnerships	(120)	(131)
Equity in investments	(8)	(80)
Compensation expense related to stock issuance	—	5
Provision for (recovery of) doubtful accounts	(2)	189
Change in current assets and liabilities:		
Restricted cash	432	(1,361)
Accounts receivable	(1,423)	(1,209)
Inventories	105	121
Prepaid expenses and other	(3,736)	(2,070)
Accounts payable	(824)	1,068
Accrued payroll and related benefits	664	(1,385)
Accrued interest payable	19	(55)
Other accrued expenses and advance deposits	3,908	1,596
Net cash provided by operating activities	<u>3,867</u>	<u>4,433</u>
<b>Investing activities:</b>		
Purchases of property and equipment	(15,094)	(4,117)
Proceeds from disposition of property and equipment	40	17
Proceeds from disposition of investment	94	350
Investment in WestCoast Hospitality Capital Trust	(1,403)	—
Advances to WestCoast Hospitality Capital Trust	(2,065)	—
Proceeds from collections under note receivable	1,718	—
Distributions from equity investee	449	—
Other, net	(184)	69
Net cash used in investing activities	<u>(16,445)</u>	<u>(3,681)</u>

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

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### WestCoast Hospitality Corporation Consolidated Statements of Cash Flows (unaudited), (continued) For the Six Months Ended June 30, 2004 and 2003

	Six months ended June 30,	
	2004	2003
	(In thousands)	
<b>Financing activities:</b>		
Proceeds from note payable to bank	11,000	35,300
Repayment of note payable to bank	(11,000)	(87,400)
Proceeds from debenture issuance	47,423	—
Repurchase and retirement of preferred stock	(29,412)	—
Proceeds from long-term debt	83	55,200
Proceeds from short-term debt	—	2,658
Repayment of long-term debt	(2,189)	(1,783)
Proceeds from issuance of common stock under employee stock purchase plan	50	54
Preferred stock dividend payments	(1,011)	(646)
Principal payments on capital lease obligations	—	(184)
Proceeds from option exercises	140	—
Additions to deferred financing costs	(47)	(1,185)
	15,037	2,014
Change in cash and cash equivalents:		
Net increase in cash and cash equivalents	2,459	2,766
Cash and cash equivalents at beginning of period	8,121	752
	\$ 10,580	\$ 3,518
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 7,351	\$ 5,410
Income taxes	\$ 16	\$ 93
Non-cash investing and financing activities:		
Preferred stock dividends accrued	\$ 377	\$ 1,281
Options converted to property and equipment	\$ 10,128	\$ —
Debt assumed on acquisition of property and equipment	\$ 7,942	\$ —
Sale-operating leaseback of equipment	\$ —	\$ 2,658
Non-cash reduction of working capital for preferred stock	\$ —	\$ 44
Reclassification of assets held for sale to property and equipment	\$ —	\$ 12,978

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

**WestCoast Hospitality Corporation  
Condensed Notes to Consolidated Financial Statements**

**1. Organization**

WestCoast Hospitality Corporation (“WestCoast” or the “Company”) is a NYSE-listed hospitality and leisure company primarily engaged in the ownership, management, development and franchising of mid-scale, full service hotels under its WestCoast and Red Lion brands. As of June 30, 2004, the hotel system contained 68 hotels located in 12 states and one Canadian province, with more than 11,600 rooms and 550,000 square feet of meeting space. The Company managed 46 of these hotels, consisting of 29 owned hotels, 13 leased hotels and four third-party owned hotels. The remaining 22 hotels were owned and operated by third-party franchisees.

The Company is also engaged in entertainment and real estate operations. Through the entertainment division, which includes TicketsWest.com, Inc., the Company engages in event ticket distribution and promotion and presents a variety of entertainment productions in communities targeted for hotel market penetration. The real estate division engages in the traditional real estate related services that the Company has pursued since its predecessor was originally founded in 1937, including developing, managing and providing broker services for sales and leases of commercial and multi-unit residential properties.

The Company was incorporated in the State of Washington on April 25, 1978. The financial statements encompass the accounts of WestCoast Hospitality Corporation and all of its consolidated subsidiaries, including its 100% ownership of Red Lion Hotels, Inc. and WestCoast Hotels, Inc., its approximately 98% ownership of WestCoast Hospitality Limited Partnership (“WHLP”), and a 50% interest in a real estate limited partnership. The financial statements also include an equity method investment in a 19.9% owned real estate limited partnership and certain cost method investments in various entities included as other assets, over which the Company does not exercise significant influence. All significant inter-company transactions and accounts have been eliminated upon consolidation.

**2. Basis of Presentation**

The unaudited consolidated financial statements included herein have been prepared by WestCoast pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). 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. The balance sheet as of December 31, 2003 has been compiled from the audited balance sheet as of such date. The Company believes that the disclosures included herein are adequate; however, these consolidated statements should be read in conjunction with the financial statements and the notes thereto for the year ended December 31, 2003 previously filed with the SEC on Form 10-K.

In the opinion of management, these unaudited consolidated financial statements contain all of the adjustments of a normal and recurring nature necessary to present fairly the consolidated financial position of the Company at June 30, 2004 and the consolidated results of operations and cash flows for the periods ended June 30, 2004 and 2003. The results of operations for the periods presented may not be indicative of those which may be expected for a full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the disclosures of contingent liabilities. Accordingly, ultimate results could differ materially from those estimates.

### **3. Trust Preferred Offering**

During the first quarter of 2004 the Company completed a public offering of \$46 million of trust preferred securities through WestCoast Hospitality Capital Trust (the "Trust"), a Delaware statutory trust sponsored by the Company. The securities, which have been listed on the New York Stock Exchange, entitle holders to cumulative cash distributions at a 9.5% annual rate and the securities mature on February 24, 2044. In addition, the Company invested \$1.4 million in trust common securities, representing 3% of the total capitalization of the Trust.

The Trust used the proceeds of the offering and the Company's investment to purchase from the Company \$47.4 million of its junior subordinated debentures with payment terms that mirror the distribution terms of the trust securities. The cost of the trust preferred offering totaled \$2.3 million, including \$1.7 million of underwriting commissions and expenses and \$614 thousand of costs incurred directly by the Trust. The Trust paid these costs utilizing an advance from the Company. The advance to the Trust is included with other long-term assets on the accompanying consolidated balance sheet. The proceeds from the debenture sale, net of the costs of the trust preferred offering and the Company's investment in the Trust, were \$43.7 million. The Company's accounting treatment for these events follows the guidance further discussed in Note 8.

The Company used approximately \$29.8 million of the net proceeds to pay accrued dividends on, and redeem in full, all outstanding shares of its Series A and Series B preferred stock on February 24, 2004. The Company is using the \$13.9 million balance of the net proceeds for general corporate purposes including capital improvements.

### **4. Hotel Acquisitions**

As part of a business combination in 1999, the Company assumed a lease on a hotel in Yakima, Washington and has operated the property since that date. The lease, as amended, included an option to purchase the property by December 31, 2003. In September 2003, the Company exercised the option to purchase the Red Lion Hotel Yakima Gateway and closed the purchase transaction in January 2004 utilizing certain tax deferred proceeds from the sale of the Red Lion River Inn completed in 2003. The gross purchase price of the hotel under the option, paid in cash, totaled \$5.3 million. In addition, the Company maintained an option with a cost basis of \$1.0 million that has become part of the new basis in the property and equipment.

As part of a business combination in 1999, the Company also assumed a lease on a hotel in Bellevue, Washington and has operated the property since that date. The lease included an option to purchase the property by December 31, 2003. In December 2003, the Company exercised its option to purchase the Red Lion Hotel Bellevue for \$12.0 million. The Company completed the purchase of this hotel on April 17, 2004 utilizing certain tax deferred proceeds from the sale of the Red Lion River Inn completed in 2003. The gross purchase price of the hotel under the option, paid in cash, totaled \$3.3 million. In addition, the Company maintained an option with a cost basis of \$9.1 million and assumed debt totaling \$7.9 million that has become part of the new basis in the property and equipment.

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### 5. Business Segments

The Company has four operating segments: (1) hotels and restaurants; (2) franchise, central services and development; (3) entertainment; and (4) real estate. Corporate services consists primarily of miscellaneous revenues and expenses, cash and cash equivalents, certain receivables and certain property and equipment which are not specifically associated with an operating segment. Management reviews and evaluates the operating segments exclusive of interest expense. Therefore, interest expense is not allocated to the segments.

Selected information with respect to the segments is as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Revenues:				
Hotels and restaurants	\$44,141	\$43,346	\$79,007	\$77,442
Franchise, central services and development	715	888	1,291	1,978
Entertainment	1,833	1,384	5,418	3,985
Real estate	2,171	2,363	4,684	4,665
Corporate services	76	87	166	174
	<u>\$48,936</u>	<u>\$48,068</u>	<u>\$90,566</u>	<u>\$88,244</u>
Operating income (loss):				
Hotels and restaurants	\$ 5,092	\$ 4,960	\$ 3,488	\$ 3,539
Franchise, central services and development	314	399	546	935
Entertainment	(111)	10	577	345
Real estate	774	1,195	1,643	2,327
Corporate services	(961)	(810)	(1,847)	(1,778)
	<u>\$ 5,108</u>	<u>\$ 5,754</u>	<u>\$ 4,407</u>	<u>\$ 5,368</u>

### 6. Earnings or Loss Per Common Share

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted earnings or loss per common share computations for the three months and six months ended June 30, 2004 and 2003 (in thousands, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Numerator:				
Income( loss) applicable to common shareholders	\$ 805	\$ 1,153	\$(1,920)	\$(1,256)
Denominator:				
Weighted-average shares outstanding - basic	13,046	12,994	13,035	12,993
diluted (a) (b) (c)	13,335	13,280	13,035	12,993
Earnings (loss) per common share — basic and diluted	<u>\$ 0.06</u>	<u>\$ 0.09</u>	<u>\$ (0.15)</u>	<u>\$ (0.10)</u>

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- (a) For the three months ended June 30, 2004 and 2003, the dilutive effect of converting 286,161 operating partnership (“OP”) units is included in the calculation of diluted earnings per share. For the six months ended June 30, 2004 and 2003, the effect of converting OP Units would be anti-dilutive and the units are therefore excluded from the calculation.
- (b) At June 30, 2004 and 2003 there were 675,445 and 1,232,341 options to purchase common shares outstanding, respectively. For the three months ended June 30, 2004 the dilutive effect of converting 3,596 options to purchase common shares is included in the calculation of diluted earnings per share. For the three months ended June 30, 2003 and for the six months ended June 30, 2004 and 2003 the effect of the shares that would be issuable upon exercise of these outstanding options would be anti-dilutive and the options are therefore excluded from the above weighted average share calculations.
- (c) All outstanding convertible notes are excluded from the above calculation for all periods presented as they would be antidilutive.

## 7. Stock Based Compensation

As permitted by Statement of Financial Accounting Standards No. 123 “Accounting for Stock-Based Compensation” (“SFAS No. 123”), as amended by Statement of Financial Accounting Standards No. 148 “Accounting for Stock-Based Compensation — Transition and Disclosure” (“SFAS No. 148”), the Company has chosen to measure compensation cost for stock-based employee compensation plans using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and to provide the disclosure only requirements of SFAS No. 123, including frequent and prominent disclosure of stock-based compensation expense.

The Company has chosen not to record compensation expense using fair value measurement provisions in the statement of operations. Had compensation cost for the plan been determined based on the fair value at the grant dates for awards under the plans, reported net loss and loss per share would have been changed to the pro forma amounts indicated below (in thousands, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Reported income (loss) applicable to common shareholders	\$ 805	\$1,153	\$(1,920)	\$(1,256)
Add back: stock-based employee compensation expense, net of related tax effects	—	—	—	3
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	—	(128)	—	(465)
Pro forma	\$ 805	\$1,025	\$(1,920)	\$(1,718)
Basic and diluted loss per common share:				
Reported earnings (loss)	\$0.06	\$ 0.09	\$ (0.15)	\$ (0.10)
Stock-based employee compensation, fair value	—	(0.01)	—	(0.03)
Pro forma	\$0.06	\$ 0.08	\$ (0.15)	\$ (0.13)

During the first quarter of 2004, a total of 26,587 options to purchase common shares were exercised by employees under the terms of their options agreements, resulting in proceeds to the Company totaling approximately \$140 thousand.

**8. Recent Accounting Pronouncements**

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). In December 2003, the FASB issued a revision to this interpretation ("FIN No. 46(r)"). FIN No. 46(r) clarifies the application of Accounting Research Bulletin No. 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company adopted FIN No. 46 on July 1, 2003 for those provisions then in effect, and adopted FIN No. 46(r) in its revised entirety for financial statements effective January 1, 2004. As a result of the issuance of FIN No. 46(r) and the accounting profession's application of the guidance provided by the FASB, issuer trusts, like WestCoast Hospitality Capital Trust, are generally variable interest entities. The Company has determined that it is not the primary beneficiary under the trust, and accordingly the Company will not consolidate the financial statements of the trust into its consolidated financial statements.

Based upon the foregoing accounting authority, these consolidated financial statements present the debentures issued to the trust as a related party liability, and reflect offsetting assets relative to the cash and common securities received from the trust in the consolidated balance sheet. For financial reporting purposes, the Company records interest expense on the corresponding debentures in its consolidated statements of operations.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*This quarterly report on Form 10-Q includes forward-looking statements. We have based these statements on our current expectations and projections about future events. When words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "seek," "should," "will" and similar expressions or their negatives are used in this annual report, these are forward-looking statements. Many possible events or factors, including those discussed in "Risk Factors Relating to Our Business" beginning on page 9 of our 2003 annual report filed on Form 10-K, could affect our future financial results and performance, and could cause actual results or performance to differ materially from those expressed. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this quarterly report.*

*In this report, "we," "us," "our," "our company" and "the company" refer to WestCoast Hospitality Corporation and, as the context requires, its wholly and partially owned subsidiaries, and "WestCoast" refers to WestCoast Hospitality Corporation. The term "the system" or "system of hotels" refers to our entire group of owned, leased, managed and franchised hotels.*

*The following discussion and analysis should be read in connection with our consolidated financial statements and the condensed notes thereto and the other financial information included elsewhere in this quarterly report.*

#### Overview

We operate in four reportable segments: hotels and restaurants; franchise, central services and development; entertainment; and real estate. The hotels and restaurants segment derives revenue primarily from room rentals and food and beverage operations at our owned and leased hotels and from management fees charged to the owners of our managed hotels. Management fees are typically based on a percentage of the hotel's gross revenues plus an incentive fee based on operating performance. The franchise, central services and development segment is engaged primarily in licensing our brands to franchisees. This segment generates revenue from royalty fees that are typically based on a percent of room revenues and are charged to hotel owners in exchange for the use of our brands and access to our central services programs (reservation system, guest loyalty program, national and regional sales, revenue management tools, quality inspections, advertising and brand standards.) The entertainment segment derives revenue primarily from ticketing services and promotion of entertainment productions. The real estate segment generates revenue from owning, managing, leasing and developing commercial and multi-unit residential properties.

#### Hospitality Industry Performance Measures

We believe that the following performance measures, which are widely used in the hospitality industry and appear throughout this quarterly report, are important to our discussion of operating performance:

- Total available rooms represents the number of rooms available multiplied by the number of days in the reported period. We use total available rooms as a measure of capacity in our system of hotels. Rooms under significant renovation are excluded from total available rooms.
- Average occupancy represents total paid rooms occupied divided by total available rooms. We use average occupancy as a measure of the utilization of capacity in our system of hotels.
- Revenue per available room, or RevPAR, represents total room and related revenues divided by total available rooms. We use RevPAR as a measure of performance yield in our system of hotels.
- Average daily rate, or ADR, represents total room revenues divided by the total number of paid rooms occupied by hotel guests. We use ADR as a measure of room pricing in our system of hotels.

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- Comparable hotels are hotels that have been owned, leased, managed or franchised by us for more than one year. Throughout this quarterly report, unless otherwise stated, RevPAR, ADR and average occupancy statistics are calculated using statistics for comparable hotels.

## Operating Results and Statistics

A summary of our consolidated results, balance sheet data and hotel statistics for the three and six months ended June 30, 2004 and 2003 is as follows (in thousands, except hotel statistics):

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<b>Consolidated statement of operations data:</b>				
Revenues:				
Hotels and restaurants	\$44,141	\$43,346	\$ 79,007	\$77,442
Franchise, central services and development	715	888	1,291	1,978
Entertainment	1,833	1,384	5,418	3,985
Real estate	2,171	2,363	4,684	4,665
Corporate services	76	87	166	174
Total revenues	\$48,936	\$48,068	\$ 90,566	\$88,244
Direct expenses	\$42,980	\$41,727	\$ 84,526	\$81,549
Operating income	\$ 5,108	\$ 5,754	\$ 4,407	\$ 5,368
Interest expense	\$ 4,083	\$ 2,713	\$ 7,370	\$ 5,355
Income tax expense (benefit)	\$ 345	\$ 1,078	\$ (1,045)	\$ 113
Net income (loss)	\$ 805	\$ 1,793	\$ (1,543)	\$ 25
Preferred stock dividend	\$ —	\$ (640)	\$ (377)	\$ (1,281)
Income (loss) applicable to common shareholders	\$ 805	\$ 1,153	\$ (1,920)	\$ (1,256)
Earnings (loss) per common share — basic and diluted	\$ 0.06	\$ 0.09	\$ (0.15)	\$ (0.10)
Weighted average shares outstanding — basic	13,046	12,994	13,035	12,993
Weighted average shares outstanding — diluted	13,335	13,280	13,035	12,993
<b>Common size operations data:</b>				
Revenues:				
Hotels and restaurants	90.2%	90.2%	87.2%	87.8%
Franchise, central services and development	1.5%	1.8%	1.4%	2.2%
Entertainment	3.7%	2.9%	6.0%	4.5%
Real estate	4.4%	4.9%	5.2%	5.3%
Corporate services	0.2%	0.2%	0.2%	0.2%
Total revenues	100.0%	100.0%	100.0%	100.0%
Direct expenses	87.8%	86.8%	93.3%	92.4%
Operating income	10.4%	12.0%	4.9%	6.1%
Interest expense	8.3%	5.6%	8.1%	6.1%
Income tax expense (benefit)	0.7%	2.2%	-1.2%	0.1%
Net income (loss)	1.6%	3.7%	-1.7%	0.0%
Income (loss) applicable to common shareholders	1.6%	2.4%	-2.1%	-1.4%
<b>Other operating data:</b>				
EBITDA	\$ 8,448	\$ 8,741	\$ 11,073	\$11,257
Net cash provided by operating activities	\$ 3,344	\$ 2,868	\$ 3,867	\$ 4,433
Net cash used in investing activities	\$ (6,053)	\$ (1,164)	\$ (16,445)	\$ (3,681)
Net cash provided by (used in) financing activities	\$ (1,048)	\$ (376)	\$ 15,037	\$ 2,014
<b>Hotel statistics:</b>				
RevPAR	\$ 43.99	\$ 41.26	\$ 39.54	\$ 37.17
ADR	\$ 70.60	\$ 71.00	\$ 69.60	\$ 69.80
Average occupancy	62.3%	58.1%	56.8%	53.2%

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	June 30, 2004	December 31, 2003
<b>Consolidated balance sheet data:</b>		
Working capital	\$ 4,904	\$ 53
Property and equipment, net	\$291,533	\$264,039
Total assets	\$378,478	\$353,225
Total long-term debt	\$157,273	\$151,437
Debentures due WestCoast Hospitality Capital Trust	\$ 47,423	\$ —
Total liabilities	\$257,431	\$201,036
Preferred stock and related additional paid-in capital	\$ —	\$ 29,412
Total stockholders' equity	\$121,047	\$152,189

EBITDA is defined as earnings before interest, taxes, depreciation and amortization. We believe it is a useful financial performance measure for us and for our shareholders and is a complement to net income and other financial performance measures provided in accordance with accounting principles generally accepted in the United States, or GAAP.

We use EBITDA to measure the financial performance of our owned and leased hotels because it excludes interest, taxes, depreciation and amortization, which bear little or no relationship to operating performance. By excluding interest expense, EBITDA measures our financial performance irrespective of our capital structure or how we finance our properties and operations. We generally pay federal and state income taxes on a consolidated basis, taking into account how the applicable taxing laws apply to our company in the aggregate. By excluding taxes on income, we believe EBITDA provides a basis for measuring the financial performance of our operations excluding factors that our hotels cannot control. By excluding depreciation and amortization expense, which can vary from hotel to hotel based on historical cost and other factors unrelated to the hotels' financial performance, EBITDA measures the financial performance of our hotels without regard to their historical cost. For all of these reasons, we believe that EBITDA provides us and investors with information that is relevant and useful in evaluating our business.

However, because EBITDA excludes depreciation and amortization, it does not measure the capital we require to maintain or preserve our fixed assets. In addition, because EBITDA does not reflect interest expense, it does not take into account the total amount of interest we pay on outstanding debt nor does it show trends in interest costs due to changes in our borrowings or changes in interest rates. EBITDA, as defined by us, may not be comparable to EBITDA as reported by other companies that do not define EBITDA exactly as we define the term. Because we use EBITDA to evaluate our financial performance, we reconcile it to net income, which is the most comparable financial measure calculated and presented in accordance with GAAP. EBITDA does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity.

The following table presents a reconciliation of EBITDA to net income in accordance with GAAP for each of the periods presented (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
EBITDA	\$ 8,448	\$ 8,741	\$11,073	\$11,257
Income tax benefit (expense)	(345)	(1,078)	1,045	(113)
Interest expense	(4,083)	(2,713)	(7,370)	(5,355)
Depreciation and amortization	(3,215)	(3,157)	(6,291)	(5,764)
Net income (loss)	\$ 805	\$ 1,793	\$(1,543)	\$ 25

### Results of Operations

#### *The Three Months Ended June 30, 2004 Compared with the Three Months Ended June 30, 2003*

##### Revenues

Hotel and restaurant revenues for the three months ended June 30, 2004 increased \$795 thousand, or 1.8%, to \$44.1 million compared to \$43.3 million for the three months ended June 30, 2003.

Revenue from owned and leased hotels was up \$881 thousand compared to the same quarter in 2003. The increase was primarily due to growth of about \$803 thousand in room revenue and \$141 thousand in food and beverage revenue as compared to the second quarter of 2003. Other revenue was down \$63 thousand. At our owned and leased hotels, ADR was \$69.06 for the three months ended June 30, 2004 compared to \$70.35 for the three months ended June 30, 2003. Average occupancy in the second quarter of 2004 for owned and leased hotels was 61.3% versus 58.4% for the same period in 2003. The resulting second quarter RevPAR from owned and leased hotels in 2004 of \$42.33 was \$1.22 higher than RevPAR in the second quarter of 2003.

Although demand suffered significantly early in 2003 due, in our opinion, to declining business and excursion travel resulting from national economic challenges, personal spending cutbacks and national security threats, we believe our operating results reflect that our hotel and restaurants segment began to stabilize during the third quarter of 2003. Our occupancy gains during both of the first two quarters of 2004 compared to the same periods in 2003 substantiate this belief. These results are typical of the overall national trends. During the second quarter of 2004 our revenue results are indicative of better regional demand for mid-scale hotel rooms and our ability to service that demand through our system of hotels. We also believe the rebranding of 22 hotels from WestCoast to Red Lion hotels, which was completed in the first quarter of 2003, continues to have a positive effect.

We continue to receive a progressively higher percentage of our reservations through third-party Internet channels (alternative distributions system or ADS), on which we generally realize lower room rates. The central reservations and distribution management technology placed in service during the first and second quarters of 2003 allows us to manage the yield on these ADS channels on a real-time, hotel-by-hotel basis. We subsequently signed fixed-charge markup merchant model agreements with nine ADS providers, which typically entitle the provider to keep a fixed percentage of the price paid by the customer for each room booked. This allows the Company to maximize the yield of a typically lower rated market segment. We therefore launched a pilot ADS channel management program in select hotels on August 1, 2003 and realized positive revenue trends in those properties during the trial period. Subsequently we implemented the ADS channel management program to all system hotels and have experienced continued success in revenue growth. Decreases in ADR began to slow during the third and fourth quarters of 2003 and that trend continues, partly reflective of our successful management of these ADS channels and our merchant model agreements. During the second quarter of 2004, we experienced flat system wide ADR compared to the second quarter of 2003. At the same time, system wide occupancy grew from 58.1% to 62.3% between comparative quarters.

In addition, during the second quarter of 2004, we continued to increase bookings through our focus on direct sales, competitive rate strategies, "Stay Comfortable" advertising campaign and the "We Promise or We Pay" branded website booking initiative. The "We Promise or We Pay" initiative is designed to encourage guests to book on our branded websites of westcoasthotels.com and redlion.com. Through this initiative, we guarantee to our guests that our branded websites will provide the lowest rate available compared to non-opaque ADS channels. During the quarter, we also completed our launch of "Net4Guests," our privately-labeled wireless internet service which provides hotel guests and GuestAwards frequency program members access to free high speed wireless internet.

We also completed a significant portion of our capital program initiated during the first quarter which significantly improves room amenities with new pillow-top beds and an upgraded pillows and linens

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package. We are currently launching a marketing campaign geared specifically to increasing awareness of the Net4Guests and room amenity upgrade programs.

Franchise, central services and development revenue for the three months ended June 30, 2004 decreased by \$173 thousand, or 19.5%, to \$715 thousand compared to \$888 thousand for the three months ended June 30, 2003. Net changes in franchise fee income accounted for substantially all of this change, with 25 franchises in place during the second quarter of 2003 compared to 22 during the second quarter of 2004.

Entertainment segment revenue increased \$449 thousand for the three month period ended June 30, 2004 to \$1.8 million from \$1.4 million during the three months ended June 30, 2003. Approximately \$333 thousand of the increase was due to presentation of two Broadway shows during the second quarter of 2004 compared to no such shows being presented during the second quarter of 2003. The remaining net increase is primarily due to ticketing income from four new locations that we now serve.

Real estate revenue decreased \$192 thousand for the three month period ended June 30, 2004 to \$2.2 million from \$2.4 million during the three months ended June 30, 2003. The decrease was due primarily to the slightly lower rental commissions to us in 2004 and lower rental rates at one of our owned facilities between comparative periods, partially offset by increased occupancy and increased management fee revenue.

### Direct Expenses

In aggregate, direct expenses for the three month period ended June 30, 2004 increased to \$43.0 million from \$41.7 million during the three months ended June 30, 2003. This represents an increase of \$1.3 million or 3.0% between periods. Direct expenses include direct operating expenses for each of the operating segments, depreciation, amortization, gain or loss on asset dispositions, and conversion expenses, if any.

Direct hotels and restaurants segment expenses increased \$1.5 million from \$35.1 million in the second quarter of 2003 to \$36.6 million in the second quarter of 2004. The increases were primarily related to increases in labor costs for additional hotel staffing related to higher guest service levels and direct sales efforts. Benefits costs, including worker's compensation costs also contributed to the increase in expenses during the period.

Direct costs for franchise, central services and development were down \$88 thousand between comparative quarters due to labor savings and cost containment. The entertainment segment direct costs increased \$556 thousand in connection with the Broadway presentations in the second quarter of 2004 noted above and increased ticket operating expenses. Real estate segment direct expenses were down due to decreases in commissions paid.

Depreciation and amortization increased \$58 thousand or 1.8% between the second quarter of 2004 and the second quarter of 2003, primarily attributable to three reasons. Firstly, capital additions made in 2003 and year-to-date 2004 added to the depreciable base of property and equipment. Secondly, the amortization of deferred finance costs associated with the borrowings made during 2003. Lastly, the second quarter of 2004 reflects depreciation of certain assets previously held for sale in Spokane, Washington for which no depreciation expense was recognized in the second quarter of 2003.

For the three months ended June 30, 2004 the net gain on asset disposals was \$208 thousand, related to the recognition of deferred gains over time on both an office building and a hotel. The net loss for the three months ended June 30, 2003 was related primarily to the disposition of our interest in a hotel venture.

Conversion costs in the second quarter of 2003 represent expenses incurred unrelated to property and equipment to re-brand the hotels to the Red Lion name. No such costs were incurred during the second quarter of 2004.

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### Undistributed Corporate Expenses

Undistributed corporate expenses for the three month period ended June 30, 2004 were \$848 thousand compared to \$587 thousand for the three months ended June 30, 2003. The increase of \$261 thousand was primarily due to higher employee costs and increases in insurance costs. Undistributed corporate expense includes general and administrative charges such as corporate payroll, legal expenses, contributions, directors and officers insurance, bank service charges, outside accountants and consultants expense, and investor relations charges. We consider these expenses to be “undistributed” because the costs are not directly related to our business segments and therefore are not distributed to those segments. In contrast, costs more directly related to our business segments such as accounting, human resources and information technology expenses are distributed out to operating segments and included in direct expenses.

### Operating Income

Operating income decreased by \$646 thousand or 11.2% from \$5.7 million for the second quarter of 2003 to \$5.1 million for the second quarter of 2004. The decline in operating income was due to increased costs in our operating segments for the reasons previously discussed.

### Interest Expense

Interest expense for the three month period June 30, 2004 was \$4.1 million compared to \$2.7 million for the three months ended June 30, 2003. The increase of \$1.4 million, or 50.5%, was due to a greater average amount of outstanding interest bearing debt, primarily in connection with the addition of the \$47.4 million of debentures issued to the Trust in the first quarter of 2004. A majority of the proceeds from the debentures were used to retire our then existing preferred stock and eliminate the ongoing dividend requirement of those securities. While these new debentures reflect a 9.5% rate, they are tax deductible under current Federal tax law giving them an effective post tax rate of approximately 6.2%. The average pre-tax interest rate on debt during the second quarter of 2004 was 8.0% versus 6.8% during the second quarter of 2003. In addition to the interest rate on the debentures, a substantial portion of our borrowings carry a pre-tax interest rate of 6.7% for ten years, which management believes is a favorable long-term rate.

### Income Taxes

Income tax expense for the second quarter of 2004 decreased by \$733 thousand to \$345 thousand compared to \$1.1 million for the second quarter of 2003. The decrease was primarily due to lower pre-tax net income for the quarter, augmented by increased deductions related to interest on the debentures to the Trust.

### Other Income (Expense)

The other income and expense line items are comparable between periods and consistent with our long term historical results. During the second quarter of 2003 we had \$790 thousand of loan fee write-off offset by a contract termination fee of \$350 thousand and other net gains of \$128 thousand.

### Net Income and Income Applicable to Common Shareholders

The net income for the three months ended June 30, 2004 of \$805 thousand was lower than the net income for the three months ended June 30, 2003 of \$1.8 million. The lower income is primarily the result of higher direct hotel and restaurant segment operating costs, higher depreciation, and higher interest expense between the comparative periods as described above.

Due to the retirement of all of our Series A and Series B preferred stock in February 2004, preferred stock dividends decreased \$640 thousand between the second quarter of 2003 and the second quarter of 2004. As a result, the increase in interest expense was partially offset by the decrease in preferred stock

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dividends. The resulting income applicable to common shareholders was lower for the second quarter of 2004 compared to the second quarter of 2003 by \$348 thousand.

### Earnings Per Share

The earnings per share for the three months ended June 30, 2004 was \$0.06 compared to \$0.09 for the three months ended June 30, 2003. The net income applicable to common shareholders decreased \$348 thousand as described above, while the number of weighted average common shares outstanding in both periods remained relatively consistent.

### *The Six Months Ended June 30, 2004 Compared with the Six Months Ended June 30, 2003*

#### Revenues

Hotel and restaurant revenues for the six months ended June 30, 2004 increased \$1.6 million, or 2.0%, to \$79.0 million compared to \$77.4 million for the six months ended June 30, 2003.

Revenue from owned and leased hotels was up \$1.8 million compared to the same period in 2003. The increase was primarily due to growth of about \$2.0 million in room revenue between comparable periods, partially offset by declines of \$68 thousand in food and beverage revenue as compared to the first two quarters of 2003. Incidental revenues from guest amenities were also down \$144 thousand. At our owned and leased hotels, ADR was \$67.43 for the six months ended June 30, 2004 compared to \$67.88 for the six months ended June 30, 2003. Average occupancy in the first half of 2004 for owned and leased hotels was 54.8% versus 52.6% for the same period in 2003. The resulting RevPAR from owned and leased hotels for the first six months of 2004 of \$36.97 was \$1.28 higher than RevPAR in the first six months of 2003.

Although demand suffered significantly early in 2003 due, in our opinion, to declining business and excursion travel resulting from national economic challenges, personal spending cutbacks and national security threats, we believe our operating results reflect that our hotel and restaurants segment began to stabilize during the third quarter of 2003. Our occupancy gains during both the first two quarters of 2004 compared to the same period in 2003 substantiate this belief. These results are typical of the overall national trends. During the first two quarters of 2004, our revenue results are indicative of better regional demand for mid-scale hotel rooms and our ability to service that demand through our system of hotels. We also believe the rebranding of 22 hotels from WestCoast to Red Lion hotels, which was completed in the first quarter of 2003, continues to have a positive effect.

We continue to receive a progressively higher percentage of our reservations through third-party Internet channels (alternative distributions system or ADS), on which we generally realize lower room rates. The central reservations and distribution management technology placed in service during the first and second quarters of 2003 allows us to manage the yield on these ADS channels on a real-time, hotel-by-hotel basis. We subsequently signed fixed-charge markup merchant model agreements with nine ADS providers, which typically entitle the provider to keep a fixed percentage of the price paid by the customer for each room booked. This allows the Company to maximize the yield of a typically lower rated market segment. We therefore launched a pilot ADS channel management program in select hotels on August 1, 2003 and realized positive revenue trends in those properties during the trial period. Subsequently we implemented the ADS channel management program to all system hotels and have experienced continued success in revenue growth. Decreases in ADR began to slow during the third and fourth quarters of 2003 and that trend continues, partly reflective of our successful management of these ADS channels and our merchant model agreements. During the first and second quarters of 2004, we experienced flat system wide ADR compared to the same period in 2003. At the same time, system wide occupancy grew from 53.2% to 56.8% between comparative periods.

In addition, during the second quarter of 2004, we continued to increase bookings through our focus on direct sales, competitive rate strategies, "Stay Comfortable" advertising campaign and the "We Promise or We Pay" branded website booking initiative. The "We Promise or We Pay" initiative is designed to

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encourage guests to book on our branded websites of westcoasthotels.com and redlion.com. Through this initiative, we guarantee to our guests that our branded websites will provide the lowest rate available compared to non-opaque ADS channels. During the quarter, we also completed our launch of "Net4Guests," our privately-labeled wireless internet service which provides hotel guests and GuestAwards frequency program members access to free high speed wireless internet.

We also completed a significant portion of our capital program initiated during the first quarter of 2004 which significantly improves room amenities with new pillow-top beds and an upgraded pillow and linens package. We are launching a marketing campaign geared specifically to increase awareness of the Net4Guests and room amenity upgrade programs.

Franchise, central services and development revenue for the six months ended June 30, 2004 decreased by \$687 thousand, or 34.7%, to \$1.3 million compared to \$2.0 million for the six months ended June 30, 2003. Net changes in franchise fee income accounted for substantially all of this change. During the first quarter of 2003 a portfolio of 11 associated hotels left our system. In addition, since the first quarter of 2003, three franchises were added and two others left the system. At June 30, 2004 there were 22 franchised hotel operations in the system.

Entertainment segment revenue increased \$1.4 million for the six month period ended June 30, 2004, to \$5.4 million from \$4.0 million during the six months ended June 30, 2003. Approximately \$481 thousand of the increase was due to presentation of five Broadway shows during the first six months of 2004 compared to two such shows presented during the first six months of 2003. The remaining increase was primarily due to ticketing income from four new locations we now serve.

Real estate revenue stayed flat at approximately \$4.7 million for both the six month periods ended June 30, 2004 and 2003. The segment experienced increased revenues from fees earned on three new management and development projects during the first six months of 2004 that were not in place during the first quarter of 2003, increased leasing occupancy, and increased management fees for real estate projects. These improvements were offset by slightly lower commission revenue and lower rental rates at one of our owned facilities.

### Direct Expenses

In aggregate, direct expenses for the six month period ended June 30, 2004 increased to \$84.5 million from \$81.5 million during the six months ended June 30, 2003. This represents an increase of \$3.0 million or 3.7% between periods. Direct expenses include direct operating expenses for each of the operating segments, depreciation, amortization, gain or loss on asset dispositions, and conversion expenses, if any.

Direct hotels and restaurants segment expenses increased \$3.0 million from \$67.7 million in the first six months of 2003 to \$70.7 million for the first six months of 2004. The increases were primarily related to increases in labor costs for additional hotel staffing related to higher guest service levels and direct sales efforts. Increases in utility costs and worker's compensation costs also contributed to the increase.

Direct costs for franchise, central services and development were down \$300 thousand between comparative periods due to labor savings and cost containment. The entertainment segment direct costs increased \$1.2 million in connection with the additional Broadway presentations in the first two quarters of 2004 noted above, reduced profitability in certain operating areas due to non-scalable labor costs, increases in ticketing activity requiring more labor, and advertising costs for the 2004/2005 Broadway season. Real estate segment direct expenses were up \$70 thousand due to increases in commissions paid during the first quarter of 2004. Corporate services direct expenses remained consistent between periods.

Depreciation and amortization increased \$527 thousand or 9.1% between the first six months of 2004 and the first six months of 2003, primarily attributed to three reasons. Firstly, capital additions made in 2003 and year-to-date 2004 added to the depreciable base of property and equipment. Secondly, the amortization of deferred finance costs associated with the borrowings made during 2003. Lastly, the first

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six months of 2004 reflects depreciation of certain assets previously held for sale in Spokane, Washington for which no depreciation expense was recognized in certain periods in 2003.

For the six months ended June 30, 2004 the net gain on asset disposals was \$396 thousand, related to the recognition of deferred gains over time on both an office building and a hotel. The net loss for the six months ended June 30, 2003 of \$696 thousand is related primarily to the disposition of signage related to the rebranding of 22 of our hotels and the disposition of our interest in a hotel venture.

Conversion costs in the first quarter of 2003 represent expense incurred unrelated to property and equipment to re-brand the hotels to the Red Lion name. No such costs were incurred during the first half of 2004.

### Undistributed Corporate Expenses

Undistributed corporate expenses for the six month period June 30, 2004 were \$1.6 million compared to \$1.3 million for the six months ended June 30, 2003. The increase of \$304 thousand was primarily due to higher employee costs and certain corporate insurance costs. Undistributed corporate expense includes general and administrative charges such as corporate payroll, legal expenses, contributions, directors and officers insurance, bank service charges, outside accountants and consultants expense, and investor relations charges. We consider these expenses to be “undistributed” because the costs are not directly related to our business segments and therefore are not distributed to those segments. In contrast, costs more directly related to our business segments such as accounting, human resources and information technology expenses are distributed out to operating segments and included in direct expenses.

### Operating Income

Operating income decreased by \$961 thousand or 17.9% from \$5.4 million for the first two quarters of 2003 to \$4.4 million for the first two quarters of 2004. We believe the decline in operating income was primarily due to increased costs in our operating segments for the reasons previously discussed.

### Interest Expense

Interest expense for the six month period ended June 30, 2004 was \$7.4 million compared to \$5.4 million for the six months ended June 30, 2003. The increase of \$2.0 million, or 37.6%, was due to a greater average amount of outstanding interest bearing debt, primarily in connection with the addition of the \$47.4 million of debentures issued to the Trust during the first quarter of 2004. A majority of the proceeds from the debentures were used to retire our then existing preferred stock and eliminate the ongoing dividend requirement of those securities. While these new debentures reflect a 9.5% rate, they are tax deductible under current Federal tax law giving them an effective post tax rate of approximately 6.2%. The average pre-tax interest rate on debt during the first two quarters of 2004 was 7.9% versus 6.6% during the first two quarters of 2003. In addition to the interest rate on the debentures, a substantial portion of our borrowings carry a pre-tax interest rate of 6.7% for ten years, which management believes is a favorable long-term rate.

### Income Taxes

Income tax benefit for the six months ended June 30, 2004 was \$1.0 million. Income tax expense for the six months ended June 30, 2003 was \$113 thousand. The decrease of \$1.1 million in tax expense was primarily due to a higher pre-tax net loss from operations combined with the increased deductions related to interest on the debentures to the Trust.

### Other Income (Expense)

The other income and expense line items are comparable between periods and consistent with our long-term historical results. During the second quarter of 2003, we had \$790 thousand of loan fee write-off, offset by a contract termination fee of \$350 thousand and other net gains of \$147 thousand.

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### Net Income (Loss) and Loss Applicable to Common Shareholders

The net loss for the six months ended June 30, 2004 was \$1.5 million, compared to net income for the six months ended June 30, 2003 of \$25 thousand. The current period loss was primarily the result of higher direct hotel and restaurant segment operating costs, higher depreciation, and higher interest expense between the comparative periods as described above.

Due to the retirement of all of our Series A and Series B preferred stock in February 2004, preferred stock dividends decreased \$904 thousand between the first two quarters of 2003 and the first two quarters of 2004. As a result, the increase in interest expense was partially offset by the decrease in preferred stock dividends. The resulting loss applicable to common shareholders was higher for the first six months of 2004 compared to the first six months of 2003 by \$664 thousand.

### Loss Per Share

The loss per share for the six months ended June 30, 2004 was \$0.15 compared to a \$0.10 loss for the six months ended June 30, 2003. The net loss applicable to common shareholders increased \$664 thousand as described above, while the number of weighted average common shares outstanding in both periods remained relatively consistent.

## Liquidity and Capital Resources

### Overview

Over the last year we have taken several actions that we believe strengthen our balance sheet, particularly in the long term. Those actions include the closing of the \$46 million offering of trust preferred securities in the first quarter of 2004 described below, the \$55.2 million debt refinance in June 2003 described in our annual report, and the elimination of our preferred stock and its associated dividend requirements. In addition, the credit agreement we secured in October 2003, also described in our annual report, provides revolving credit of up to \$10.0 million. We intend to use this credit facility, if necessary, for our short-term working capital needs and to, among other things, finance capital expenditures and potential acquisitions of hotels.

In January 2004 we closed on the purchase of the Red Lion Hotel Yakima Gateway property pursuant to an option exercised in 2003. In April 2004 we closed on the purchase of the Red Lion Bellevue Inn property pursuant to an option exercised in 2003. We have not identified any other acquisitions that are probable.

Our short-term liquidity needs include funds for interest payments on our outstanding indebtedness and on the debentures, funds for capital expenditures and, potentially, acquisitions. We expect to meet our short-term liquidity requirements generally through net cash provided by operations and reserves established from existing cash, and, if necessary, by drawing upon our credit facility. A majority of our leased and owned hotels are subject to leases and debt agreements that require us to spend 3% to 5% of room revenues derived from these hotels on replacement of furniture, fixtures and equipment at these hotels, or payment of insurance premiums or real and personal property taxes with respect to these hotels. This is consistent with what we would spend on furniture, fixtures and equipment under normal circumstances to maintain the competitive appearance of our owned and leased hotels.

In general, we expect to meet our long-term liquidity requirements for the funding of property development, property acquisitions, renovations and other non-recurring capital improvements through net

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cash from operations, long-term secured and unsecured indebtedness, including our credit facility, through the issuance of debt or equity securities and through joint ventures.

Historically, our cash and capital requirements have been satisfied through cash generated from operating activities, borrowings under our credit facilities, and the issuance of equity securities. We believe cash flow from operations, available borrowings under our credit facility and cash on hand will provide adequate funds for our foreseeable working capital needs, planned capital expenditures and debt service and other obligations through 2004.

Our ability to fund operations, make planned capital expenditures, make required payments on any securities we may issue in the future and remain in compliance with the financial covenants under our debt agreements will be dependent on our future operating performance. Our future operating performance is dependent on a number of factors, many of which are beyond our control, including occupancy and the room rates we can charge. These factors also include prevailing economic conditions and financial, competitive, regulatory and other factors affecting our business and operations, and may be dependent on the availability of borrowings under our credit facility or other borrowings or securities offerings.

Cash flow from operations for the six months ended June 30, 2004 totaled \$3.9 million compared to \$4.4 million for the six months ended June 30, 2003. Net income, after reconciling adjustments to net cash provided by operations (such as non-cash income statement impacts like depreciation, amortization, write-offs, the deferred tax provision, gains and losses on assets, and the provision for doubtful accounts) totaled \$4.7 million for the first two quarters of 2004. For the first two quarters of 2003, net income adjusted for those same items totaled \$7.4 million. The difference was predominantly due to lower net operating performance, specifically in the hotels and restaurants segment, and non-cash losses for loan fees and property dispositions. Working capital changes, including restricted cash, receivables, accruals, payables, and inventories, used an additional \$855 thousand in cash during the first two quarters of 2004. In the first two quarters of 2003 working capital changes provided for a \$3.3 million increase in cash.

Net cash used in investing activities was \$16.4 million and \$3.7 million for the six months ended June 30, 2004 and 2003, respectively. Additions to property and equipment totaled \$15.1 million in the first two quarters of 2004, including \$5.3 million related to the acquisition of the Yakima Gateway property, \$3.3 million related to the acquisition of the Bellevue property and \$6.5 million for other capital projects primarily at the hotels. This compares to additions for the first two quarters of 2003 of \$4.1 million, comprised of an investment in signage related to the 2003 Red Lion rebranding initiative and various other projects in the operating divisions. It also included additions to certain software and equipment which were sold and then leased back later in 2003 as described in the our 2003 annual report. The other major variances between the two periods was the \$1.4 million investment in the Trust described above, representing 3% of the total capitalization of the Trust and the \$2.1 million advance to the Trust to cover the trust preferred offering costs. Lastly, during the second quarter of 2004 we received a \$449 thousand distribution and a \$1.7 million payment under a note receivable from an equity method investee that own the WHC Building.

Net financing activities provided \$15.0 million during the first two quarters of 2004, \$47.4 million in proceeds from the debenture sale, offset by \$29.4 million paid to redeem the Series A and Series B preferred shares. We also paid \$1.0 million in dividends during the first quarter of 2004, had scheduled principal payments on long-term debt of \$2.2 million and no net activity under the note payable to bank. This compares to the first two quarters of 2003 which reflects a net \$52.1 million repaid on the then existing note payable to bank, \$55.2 million borrowed under term loans, \$2.7 million borrowed as interim financing related to equipment leases, \$2.0 million paid in scheduled principal payments on long-term debt and capital leases, and \$646 thousand paid in preferred stock dividends.

At June 30, 2004, we had \$15.1 million in cash and cash equivalents including \$4.5 million of cash restricted under securitized borrowing arrangements for future payment of furniture, fixtures and equipment, repairs, insurance premiums and real and personal property taxes. Of the remaining \$10.6 million, \$7.5 million was held in short-term, liquid investments also readily available for use by us.

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### Financing

During the first quarter of 2004 we completed a public offering of \$46 million of trust preferred securities through WestCoast Hospitality Capital Trust (the "Trust"), a Delaware statutory trust sponsored by us. The securities, which have been listed on the New York Stock Exchange, entitle holders to cumulative cash distributions at a 9.5% annual rate and mature on February 24, 2044. In addition, we invested \$1.4 million in trust common securities, representing 3% of the total capitalization of the Trust.

The Trust used the proceeds of the offering and our investment to purchase from us \$47.4 million of our junior subordinated debentures with payment terms that mirror the distribution terms of the trust securities. Interest incurred on the debentures is tax deductible by the us under current U.S. Federal tax law and the debentures are uncollateralized. The cost of the trust preferred offering totaled \$2.3 million, including \$1.7 million of underwriting commissions and expenses and \$614 thousand of costs incurred directly by the Trust. The Trust paid these costs utilizing an advance from us. The advance to the Trust is included with other long-term assets on the accompanying consolidated balance sheet. The proceeds received by us from the debenture sale, net of the costs of the trust preferred offering and our investment in the Trust, were \$43.7 million.

We utilized approximately \$29.8 million of these net offering proceeds to pay accrued dividends on and redeem in full all outstanding shares of our Series A and Series B preferred stock on February 24, 2004. Dividend payments on these preferred shares were not tax deductible. We are using the \$13.9 million balance of the net proceeds for general corporate purposes including capital improvements.

Our revolving credit agreement with Wells Fargo Bank National Association secured during October 2003 provides a revolving credit facility with a total of \$10 million in borrowing capacity. This includes two revolving lines of credit: Line A allows for maximum borrowings of \$7.0 million and is collateralized by our personal property and five of our owned hotels. Line B allows for maximum borrowings of \$3.0 million and is collateralized by our personal property. We are required to exhaust our borrowing capacity under Line A before we may borrow under Line B. Interest under each line is computed based, at our option, upon either the bank's prime rate or certain LIBOR rates.

The agreement, as amended and effective June 30, 2004, contains certain restrictions and covenants, the most restrictive of which require us to maintain a minimum tangible net worth of \$105 million, a minimum EBITDA coverage ratio of 1.25:1 if no more than \$1.0 million is outstanding at the covenant measurement date and no more than \$1.0 million has been outstanding during the 30 consecutive days prior to the measurement date (otherwise the minimum EBITDA coverage ratio is 1.50:1), and a maximum funded debt to EBITDA (as defined by the bank) ratio of 6.25:1 for both the quarters ended June 30, 2004 and September 30, 2004 (which will decrease to 5.50:1 for the fiscal quarter ending December 31, 2004 and remain at that ratio for the remainder of the facility's term). At June 30, 2004 we were in compliance with the covenants under the credit agreement.

Line A does not require any principal payments until its maturity date of October 2006. As a result, any future borrowings under this line in 2004 would be reflected as a long-term liability. Line B has a maturity date of October 2004. We utilized Line A during the first quarter of 2004, with the maximum amount borrowed during that quarter of \$4.0 million. This borrowing was made prior to the close of our trust preferred offering in February 2004. The line was not used during the second quarter of 2004 and at June 30, 2004 no amounts were outstanding under any portion of the credit agreement.

As of June 30, 2004 we had debt obligations of \$204.7 million, of which 97.8%, or \$200.1 million, were fixed rate debt securities. \$47.4 million of the obligations are uncollateralized debentures due the Trust.

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### Other Matters

#### Assets Held for Sale

As previously disclosed, at December 31, 2002, our assets held for sale consisted of two office buildings in Spokane, Washington and the WestCoast Kalispell Center Hotel and Mall with an aggregate net carrying value of \$34.4 million.

In June 2002, we entered into a purchase and sale agreement with a potential buyer for the WestCoast Kalispell Center Hotel and Mall. Subsequently, in July 2003, our company and the buyer mutually terminated this agreement, at which time we determined that it was no longer in our best interest to continue to market the property for sale. As a result of this decision, the net book value of the Kalispell Center Hotel and Mall of \$13.0 million was reclassified from assets held for sale to property and equipment. A depreciation adjustment of \$520 thousand was recorded as of June 30, 2003, reflecting non-cash expenses that would have been recognized had the assets been classified as held and used since July 2002.

In September 2003 we determined that the two office buildings no longer qualify for classification as assets held for sale under generally accepted accounting principles. As a result of this decision, the net book value of these assets of \$21.7 million was reclassified from assets held for sale to property and equipment. A depreciation adjustment of \$1.6 million was recorded in September 2003, reflecting non-cash expenses that would have been recognized had these assets been classified as property and equipment held and used since December 2001.

#### Preferred Stock Dividends

On January 3, 2004 we paid the regularly scheduled dividend to the shareholder of record as of December 31, 2003 of our Series A and Series B Preferred Stock, totaling approximately \$634 thousand.

As noted elsewhere in this quarterly report, in connection with the offering of trust preferred securities, on February 24, 2004 we paid accrued dividends to that date on both the Series A and Series B Preferred Stock totaling \$377 thousand. We then immediately redeemed all of the outstanding and issued shares of the Series A and Series B Preferred Stock for approximately \$29.4 million, or \$50 per share. There were therefore no dividends paid during the second quarter of 2004.

#### Capital Spending

We are seeking to create a consistent guest experience across our hotels. During the year ended December 31, 2003, we spent a total of \$7.3 million on capital improvement programs, including \$5.6 million on our hotels and restaurants. During the first quarter of 2004, excluding the acquisition of the Red Lion Hotel Yakima Gateway for \$5.3 million in cash described above, we spent a total of \$1.7 million on capital improvements. During the second quarter of 2004, excluding the acquisition of the Red Lion Hotel Bellevue for \$3.3 million in cash and assumed debt described above, we spent a total of \$4.8 million on capital improvements. During the remainder of 2004 we expect to spend approximately an additional \$8.0 million on capital improvements with a focus on our hotels and restaurants segment, primarily in guest contact areas.

#### Acquisitions

In September 2003, we exercised our lease option to purchase the Red Lion Hotel Yakima Gateway for \$6.3 million. We completed the purchase of this hotel in January 2004. In December 2003, we exercised our lease option to purchase the Red Lion Hotel Bellevue for \$12.0 million. We completed the purchase of this hotel during April 2004. Both of these acquisitions used proceeds from our sale-leaseback of the Red Lion River Inn completed in 2003 under a tax deferred strategy.

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### Seasonality

Our business is subject to seasonal fluctuations. Significant portions of our revenues and profits are realized from May through October.

### Inflation

The effect of inflation, as measured by fluctuations in the U.S. Consumer Price Index, has not had a material impact on our revenues or net income during the periods under review.

### Contractual Obligations

The following tables summarize our significant contractual obligations as of June 30, 2004 (in thousands):

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Long-term debt	\$157,273	\$ 4,766	\$13,656	\$12,070	\$126,781
Operating leases(1)	120,904	6,476	12,953	12,751	88,724
Debentures due WestCoast Hospitality Capital Trust (2)	47,423	—	—	—	47,423
Total contractual obligations(3)	<u>\$325,600</u>	<u>\$11,242</u>	<u>\$26,609</u>	<u>\$24,821</u>	<u>\$262,928</u>

(1) Operating lease amounts are net of estimated sub-lease income totaling \$9.9 million annually.

(2) The principal amount of the debentures due the Trust is due in full during February 2044.

(3) We are not party to any significant long-term service or supply contracts with respect to our processes. We refrain from entering into any long-term purchase commitments in the ordinary course of business.

### Asset Dispositions

There were no significant asset dispositions during the second quarter of 2004.

### Critical Accounting Policies and Estimates

A critical accounting policy is one which is both important to the portrayal of our company's financial condition and results of operations and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. All of our significant accounting policies are described in Note 2 to our 2003 consolidated financial statements available in our annual report. The accounting principles of our company comply with GAAP. The more critical accounting policies and estimates used relate to:

Revenue is generally recognized as services are performed. Hotel and restaurant revenues primarily represent room rental and food and beverage sales from owned, leased and other consolidated hotels and are recognized at the time of the hotel stay or sale of the restaurant services. Hotel and restaurant revenues also include management fees we earn from managing third-party owned hotels.

Franchise, central services and development fees represent fees received in connection with the franchise of our company's brand name as well as central purchasing, development and other fees. Franchise fees are recognized as earned in accordance with the contractual terms of the franchise agreements. Other fees are recognized when the services are provided and collection is reasonably assured.

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Real estate division revenue represents leasing income on owned commercial and retail properties as well as property management income, development fees and leasing and sales commissions from residential and commercial properties managed by our company, typically under long-term contracts with the property owner. Lease revenues are recognized over the period of the leases. We record rental income from operating leases which contain fixed escalation clauses on the straight-line method. The difference between income earned and lease payments received from the tenants is included in other assets on the consolidated balance sheets. Rental income from retail leases which is contingent upon the lessees' revenues is recorded as income in the period earned. Management fees and leasing and sales commissions are recognized as these services are performed.

The entertainment segment derives revenue primarily from computerized event ticketing services and promotion of Broadway shows and other special events. Where our company acts as an agent and receives a net fee or commission, it is recognized as revenue in the period the services are performed. When our company is the promoter of an event and is at risk for the production, revenues and expenses are recorded in the period of the event performance.

Property and equipment is stated at cost less accumulated depreciation. We also have investments in partnerships that own and operate hotel properties. The assessment of long-lived assets for possible impairment requires us to make judgments, regarding real estate values, estimated future cash flows from the respective properties and other matters. We review the recoverability of our long-lived assets at least annually, or when events or circumstances indicate that the carrying amount of an asset may not be recoverable.

We account for assets held for sale in accordance with Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"). Our company's assets held for sale are recorded at the lower of their historical carrying value (cost less accumulated depreciation) or market value. Depreciation is terminated when the asset is determined to be held for sale. If the assets are ultimately not sold within the guidelines of SFAS No. 144, depreciation would be recaptured for the period they were classified on the balance sheet as held for sale.

Our company's intangible assets include brands and goodwill. We account for our brands and goodwill in accordance with Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"). We expect to receive future benefits from previously acquired brands and goodwill over an indefinite period of time and therefore, effective January 1, 2002, we no longer amortize our brands and goodwill in accordance with SFAS No. 142. The annual impairment review requires us to make certain judgments, including estimates of future cash flow with respect to brands and estimates of our company's fair value and its components with respect to goodwill and other intangible assets.

Our other intangible assets include management, marketing and lease contracts. The value of these contracts is amortized on a straight-line basis over the weighted average life of the agreements. The assessment of these contracts requires us to make certain judgments, including estimated future cash flow from the applicable properties.

We review the ability to collect individual accounts receivable on a routine basis. We record an allowance for doubtful accounts based on specifically identified amounts that we believe to be uncollectible and amounts that are past due beyond a certain date. The receivable is written off against the allowance for doubtful accounts if collection attempts fail. Our company's estimate for our allowance for doubtful accounts is impacted by, among other things, national and regional economic conditions, including the magnitude and duration of an economic downturn in the United States.

The preparation of financial statements in conformity with GAAP 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

**New Accounting Pronouncements**

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). In December 2003, the FASB issued a revision to this interpretation ("FIN No. 46(r)"). FIN No. 46(r) clarifies the application of Accounting Research Bulletin No. 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. We adopted FIN No. 46 on July 1, 2003 for those provisions then in effect, and we adopted FIN No. 46(r) in its revised entirety for our financial statements effective January 1, 2004. As a result of the issuance of FIN No. 46(r) and the accounting profession's application of the guidance provided by the FASB, issuer trusts, like WestCoast Hospitality Capital Trust, are generally variable interest entities. We have determined that we are not the primary beneficiary under the trust, and accordingly we will not consolidate the financial statements of the Trust into our consolidated financial statements.

Based upon the foregoing accounting authority, our consolidated financial statements present the debentures issued to the trust as a related party liability, and we recorded offsetting assets relative to the cash and common securities received from the trust in our consolidated balance sheet. For financial reporting purposes, we record interest expense on the corresponding debentures in our consolidated statements of operations.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The following tables summarize the financial instruments held by us at June 30, 2004 and December 31, 2003, which are sensitive to changes in interest rates. At June 30, 2004, approximately 2.2% of our debt was subject to changes in market interest rates and was sensitive to those changes. As of June 30, 2004 we had debt obligations of \$204.7 million, of which 97.8%, or \$200.1 million, were fixed rate debt securities. \$47.4 million of the obligations are uncollateralized debentures due the Trust. At June 30, 2004 there were no outstanding borrowings under our line-of-credit with Wells Fargo Bank National Association. As noted in Management's Discussion and Analysis of Financial Condition and Results of Operations, our market risk changed during the first quarter of 2004 due to the \$46 million trust preferred offering and the retirement of our outstanding preferred stock.

The following table presents principle cash flows for debt outstanding at June 30, 2004, by maturity date (in thousands).

	Outstanding Debt Obligations								
	Through 2004	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value
Note payable to bank (a)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt									
Fixed Rate	\$2,007	\$7,967	\$4,287	\$4,600	\$4,921	\$5,295	\$123,643	\$152,720	\$152,720
Variable Rate	\$ 313	\$ 658	\$ 703	\$ 375	\$1,928	\$ 174	\$ 402	\$ 4,553	\$ 4,553
Debentures due WestCoast Hospitality Capital Trust	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 47,423	\$ 47,423	\$ 47,791

(a) At June 30, 2004 there were no borrowings against our note payable to bank.

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The following table presents principle cash flows for debt outstanding at December 31, 2003, by maturity date (in thousands).

	Outstanding Debt Obligations						Total	Fair Value
	2004	2005	2006	2007	2008	Thereafter		
Note payable to bank (a)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt								
Fixed Rate	\$5,056	\$7,746	\$4,047	\$4,344	\$4,648	\$120,738	\$146,579	\$146,579
Variable Rate	\$ 611	\$ 652	\$ 697	\$ 370	\$1,952	\$ 576	\$ 4,858	\$ 4,858

(a) At December 31, 2003 there were no borrowings against our note payable to bank.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

As of June 30, 2004, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in the reports we file under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

#### Changes in Internal Controls

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls during the period to which this quarterly report relates.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

At any given time, we are subject to claims and actions incidental to the operation of our business. While the outcome of these proceedings cannot be predicted, it is the opinion of management that none of such proceedings, individually or in the aggregate, will have a material adverse effect on our business, financial condition, cash flows or results of operations.

### Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

None.

### Item 3. Defaults Upon Senior Securities

None.

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### Item 4 . *Submission of Matters to a Vote of Security Holders*

At the annual meeting of stockholders on May 19, 2004, the following actions were taken with the noted results:

Total Outstanding Common Stock: 13,045,549 Shares

#### 1. Election of Directors –

<u>Name</u>	<u>Votes For</u>	<u>Pct.</u>	<u>Votes Withhold</u>
Donald K. Barbieri	12,588,605	96.5%	18,241
Ronald R. Taylor	12,588,605	96.5%	18,241
Arthur M. Coffey	12,588,605	96.5%	18,241
Jon E. Eliassen	12,588,605	96.5%	18,241

#### 2. Ratification of Auditors for the Year Ended December 31, 2004 –

<u>Name</u>	<u>Votes For</u>	<u>Pct.</u>	<u>Votes Against</u>	<u>Votes Abstained</u>
BDO Seidman, LLP	12,588,642	93.1%	15,104	3,100

No other matters were submitted to a vote of security holders during the second quarter of 2004.

### Item 5. *Other Information*

None

### Item 6. *Exhibits and Reports on Form 8-K*

#### Index to Exhibits

<u>Exhibit Number</u>	<u>Description</u>
10.1	Second Amendment to Credit Agreement with Wells Fargo Bank National Association
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13(a)-14(b)
32.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13(a)-14(b)

### Reports on Form 8-K .

On May 10, 2004 we filed a Form 8-K reporting the announcement of our financial results for the quarter ended March 31, 2004.

**SIGNATURES**

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 thereunto duly authorized.

		WestCoast Hospitality Corporation	
		_____ Registrant	
	<u>Signature</u>	<u>Title</u>	<u>Date</u>
By:	<u>/s/ Peter P. Hausback</u> Peter P. Hausback	Vice President, Chief Financial Officer (Principal Financial Officer)	August 5, 2004
By:	<u>/s/ Anthony F. Dombrowik</u> Anthony F. Dombrowik	Corporate Controller (Principal Accounting Officer)	August 5, 2004

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**Exhibit 10.1**

**SECOND AMENDMENT TO CREDIT AGREEMENT**

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of June 30, 2004, by and between WESTCOAST HOSPITALITY CORPORATION, a Washington corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

**RECITALS**

A. Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of October 24, 2003, as amended from time to time ("Credit Agreement").

B. Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Credit Agreement shall be amended as follows:

1. Sections 4.9(b) and (c) are each hereby deleted in their entirety, and the following substituted therefor:

"(b) Funded Debt to EBITDA Ratio. Funded Debt divided by EBITDA not greater than: (i) 5.95 to 1.00 as of the end of the fiscal quarter ending September 30, 2003, for the four quarters then ended; (ii) 5.75 to 1.00 as of the end of each of the fiscal quarters ending December 31, 2003 and March 31, 2004, for the four fiscal quarters then ended; (iii) 6.25 to 1.00 as of the end of each of the fiscal quarters ending June 30, 2004 and September 30, 2004, for the four fiscal quarters then ended; and (iv) 5.50 to 1.00 as of the end of the fiscal quarter ending December 31, 2004 and at the end of each fiscal quarter thereafter, for the four quarters then ended. As used herein, "EBITDA" shall be defined as net profit before tax, less gains on asset sales, plus losses on asset sales, plus interest expense (net of capitalized interest), plus depreciation and amortization expense, plus non-capitalized conversion and rebranding expense, plus other non-cash expenses, less other non-cash income. In the event of an acquisition, the EBITDA shall include the most recent four-quarter EBITDA (as defined herein) of the acquired property. As used herein, "Funded Debt" shall be defined as the sum of all obligations for borrowed money (excluding the Preferred Trust Offering, as such term is defined in Section 5.3 herein) plus all capital lease obligations of the WestCoast Entities.

(c) EBITDA Coverage Ratio. EBITDA divided by Debt Service not less than 1.50 to 1.00, determined at each fiscal quarter end for the four fiscal quarters then ended; provided, however, that EBITDA divided by Debt Service may be not less than 1.25 to 1.00 as of the end of any given fiscal quarter for the four fiscal quarters then ended if both of the following conditions have been met: (i) Borrower shall have had no greater than One Million Dollars (\$1,000,000.00) outstanding in the aggregate under Line of Credit A and Line of Credit B at any time during the thirty (30) consecutive days immediately prior to the end of such fiscal quarter; and  
(ii) Borrower shall have an aggregate balance outstanding under Line of Credit A and Line of Credit B of no greater than One Million Dollars (\$1,000,000.00) as of the last day of such fiscal quarter. As used herein, "Debt Service" shall be defined as total interest expense and dividends on preferred stock for the most recent four quarters ended, plus the current maturity of long-term debt ("CMLTD") which shall be based on the CMLTD (including subordinated debt and capital leases) within the Balance Sheet dated 12-months prior to the most recent quarter ended, less that portion of balloon payments within CMLTD that exceeds normally scheduled payments. In the event of an acquisition, Debt Service shall include the Debt Service (as defined herein) of the acquired property."

2. In consideration of the changes set forth herein and as a condition to the effectiveness hereof, immediately upon signing this Amendment Borrower shall pay to Bank a non-refundable fee of \$2,500.00.

3. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

4. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

**ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first written above.

WESTCOAST HOSPITALITY  
CORPORATION

/s/ Peter P. Hausback  
By: -----  
Peter Hausback  
Chief Financial Officer

WELLS FARGO BANK,  
NATIONAL ASSOCIATION

/s/ Bruce Zavalney  
By: -----  
Bruce Zavalney  
Senior Relationship Manager

**Exhibit 31.1**

**WESTCOAST HOSPITALITY CORPORATION**

**CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)**

I, Arthur M. Coffey, President and Chief Executive Officer of WestCoast Hospitality Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WestCoast Hospitality Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-25(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - d) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - e) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*Date: August 5, 2004*

*/s/Arthur M. Coffey*

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*Arthur M. Coffey*  
*President and Chief Executive Officer*

**Exhibit 31.2**

**WESTCOAST HOSPITALITY CORPORATION**

**CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)**

I, Peter P. Hausback, Vice President, Chief Financial Officer of WestCoast Hospitality Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of WestCoast Hospitality Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-25(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - d) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - e) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*Date: August 5, 2004*

*/s/ Peter P. Hausback*

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*Peter P. Hausback*

*Vice President, Chief Financial Officer*

**Exhibit 32.1**

**WESTCOAST HOSPITALITY CORPORATION**

**CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(b)**

In connection with the quarterly report of WestCoast Hospitality Corporation (the "Company") on Form 10-Q for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arthur M. Coffey, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

August 5, 2004

*/s/ Arthur M. Coffey*

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*Arthur M. Coffey*

*President and Chief Executive Officer*

WESTCOAST HOSPITALITY CORPORATION

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(b)

In connection with the quarterly report of WestCoast Hospitality Corporation (the "Company") on Form 10-Q for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter P. Hausback, Vice President, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

August 5, 2004

*/s/ Peter P. Hausback*  
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*Peter P. Hausback*  
*Vice President, Chief Financial Officer*

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**End of Filing**

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