WESTCOAST HOSPITALITY CORP

FORM 10-Q (Quarterly Report)

Filed 10/29/2004 For Period Ending 9/30/2004

Address 201 W NORTH RIVER DRIVE SUITE 100

SPOKANE, Washington 99201

Telephone 509-459-6100 CIK 0001052595

Industry Hotels & Motels

Sector Services Fiscal Year 12/31



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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES **EXCHANGE ACT OF 1934** For the quarterly period ended September 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 _____to

WESTCOAST HOSPITALITY CORPORATION

Commission file number: 001-13957

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of incorporation or organization)

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

91-1032187

(I.R.S. Employer Identification No.)

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 [X] No []

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

Yes [] No [X]

As of October 28, 2004 there were 13,060,919 shares of the registrant's common stock outstanding.

WESTCOAST HOSPITALITY CORPORATION

Form 10-O For the Quarter Ended September 30, 2004

TABLE OF CONTENTS

Description	Page No.
PART I — FINANCIAL INFORMATION	
Financial Statements: (unaudited)	
Consolidated Balance Sheets September 30, 2004 and December 31, 2003	3
Consolidated Statements of Operations Three Months and Nine Months Ended September 30, 2004 and 2003	4
Consolidated Statements of Cash Flows Nine Months Ended September 30, 2004 and 2003	5
Condensed Notes to Consolidated Financial Statements	7
Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Quantitative and Qualitative Disclosures About Market Risk	28
Controls and Procedures	29
PART II — OTHER INFORMATION	
Legal Proceedings	29
Unregistered Sales of Equity Securities and Use of Proceeds	29
Defaults Upon Senior Securities	29
Submission of Matters to a Vote of Security Holders	29
Other Information	29
Exhibits	29
Signatures	30
2	
	PART I — FINANCIAL INFORMATION Financial Statements: (unaudited) Consolidated Balance Sheets September 30, 2004 and December 31, 2003 Consolidated Statements of Operations Three Months and Nine Months Ended September 30, 2004 and 2003 Consolidated Statements of Cash Flows Nine Months Ended September 30, 2004 and 2003 Condensed Notes to Consolidated Financial Statements Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk Controls and Procedures PART II — OTHER INFORMATION Legal Proceedings Unregistered Sales of Equity Securities and Use of Proceeds Defaults Upon Senior Securities Submission of Matters to a Vote of Security Holders Other Information Exhibits Signatures

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2004	December 31, 2003
	(In thousands, ex	xcept share data)
Assets:		
Current assets:	Φ 1 C O C 1	Φ 0.101
Cash and cash equivalents	\$ 16,261	\$ 8,121
Restricted cash	4,632	4,952
Accounts receivable, net	10,753	9,306
Inventories	2,037	2,140
Prepaid expenses and other	2,879	2,137
Total current assets	36,562	26,656
Property and equipment, net	292,339	264,039
Goodwill	28,042	28,042
Intangible assets, net	13,838	14,412
Other assets, net	10,933	20,076
Total assets	\$381,714	\$353,225
Total assets	φ361,714	\$333,223
Liabilities:		
Current liabilities:		
Accounts payable	\$ 5,547	\$ 6,990
Accrued payroll and related benefits	6,034	4,849
Accrued interest payable	800	775
Advance deposits	217	253
Other accrued expenses	10,882	8,069
Long-term debt, due within one year	8,581	5,667
Total current liabilities	32,061	26,603
Long-term debt, due after one year	147,546	145,770
Deferred income	8,713	9,279
Deferred income taxes	18,808	16,761
Minority interest in partnerships Paleotyres due West Coast Hamitality Conital Trust	2,555	2,623
Debentures due WestCoast Hospitality Capital Trust	47,423	
Total liabilities	257,106	201,036
Commitments and contingencies Stockholders' equity:		
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; 13,060,919 and 13,006,361		27,400
shares issued and outstanding	131	130
Additional paid-in capital, common stock	84,448	84,196
Retained earnings	40,029	38,451
Tommor ournings	70,027	
Total stockholders' equity	124,608	152,189
Total liabilities and stockholders' equity	\$381,714	\$353,225
	φ301,711	\$333,223

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

	Three months ended September 30, 2004 2003		Nine months ended September 30 2004 2003	
-		(In thousands, ex	xcept per share data)	
Revenue:		***	4.50.5	***
Hotels and restaurants	\$50,469	\$49,230	\$129,476	\$126,671
Franchise, central services and				
development	759	973	2,050	2,950
Entertainment	2,533	2,023	7,952	6,008
Real estate	2,144	2,177	6,828	6,843
Corporate services	82	81	248	256
Total revenues	55,987	54,484	146,554	142,728
Operating expenses:				
Hotels and restaurants	38,807	38,848	109,548	106,603
Franchise, central services and	30,007	30,040	107,540	100,003
	116	276	1 000	1 260
development	416	376	1,008	1,268
Entertainment	2,349	1,845	6,998	5,327
Real estate	1,270	1,191	3,774	3,624
Corporate services	78	83	224	242
Depreciation and amortization	3,283	4,284	9,574	10,047
(Gain) loss on asset dispositions,				
net	(134)	(117)	(530)	579
Conversion expenses		24		392
Total direct expenses	46,069	46,534	130,596	128,082
Total direct expenses				
Undistributed corporate expenses	672	712	2,305	2,040
Total expenses	46,741	47,246	132,901	130,122
Operating income	9,246	7,238	13,653	12,606
Other income (expense):	, ,	.,	-,	,
Interest expense	(4,082)	(2,886)	(11,452)	(8,241)
Interest expense	115	96	343	303
Other income (expense), net	17	87	37	(205)
				99
Equity income in investments, net	81	20	89	99
Minority interest in partnerships,	/F3\			
net	(52)	14	68	144
ncome before income taxes	5,325	4,569	2,738	4,706
ncome tax expense	1,827	1,337	783	1,449
-				
let income	3,498	3,232	1,955	3,257
referred stock dividend		(634)	(377)	(1,915)
ncome applicable to common				_
shareholders	\$ 3,498	\$ 2,598	\$ 1,578	\$ 1,342
		7-1-1		,
arnings nor common shore				_
arnings per common share	¢ 0.27	Φ 0.20	Φ 0.10	Φ 010
Basic	\$ 0.27	\$ 0.20	\$ 0.12	\$ 0.10
Diluted	\$ 0.26	\$ 0.20	\$ 0.12	\$ 0.10
	Ψ 0.20	Ψ 0.20		- 0.10
57.1.1.1.1				
Veighted-average shares outstanding:	10.050	40.000	10.010	
Basic	13,059	13,003	13,043	12,997
D'1 4. 1	13,345	13,289	13,330	13,283
Diluted	1.))+.)			

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

	2004 2003		
	(In thou	sands)	
Operating activities:			
Net income	\$ 1,955	\$ 3,257	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,574	10,047	
(Gain) loss on disposition of property, equipment and other assets	(530)	579	
Non-cash reduction of preferred stock resulting in gain	(550)	(522)	
Write-off of deferred loan fees	_	790	
Deferred income tax provision	2,047	500	
Minority interest in partnerships	(68)	(144)	
Equity in investments	(89)	(99)	
Compensation expense related to stock issuance	(0 <i>)</i>	5	
Provision for doubtful accounts	188	337	
Change in current assets and liabilities:	100	337	
Restricted cash	320	(2,140)	
Accounts receivable	(1,635)	(314)	
Inventories	103	80	
Prepaid expenses and other	(742)	114	
Accounts payable	(1,443)	476	
Accrued payroll and related benefits	1,185	118	
Accrued interest payable	25	85	
Other accrued expenses and advance deposits	3,411	997	
other decreed expenses and davance deposits	5,111		
Net cash provided by operating activities	14,301	14,166	
rect cash provided by operating activities	11,501	11,100	
Investing activities:			
Purchases of property and equipment	(19,069)	(5,141)	
Proceeds from disposition of property and equipment	198	398	
Proceeds from disposition of property and equipment	94	441	
Investment in WestCoast Hospitality Capital Trust	(1,423)		
Advances to WestCoast Hospitality Capital Trust	(2,116)	_	
Proceeds from collections under note receivable	1,725		
Distributions from equity investee	449	_	
Other, net	30	62	
Outor, not		02	
Net cash used in investing activities	(20,112)	(4,240)	
1.00 cash asca in invosting activities	(20,112)	(1,210)	

Nine months ended September 30,

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

	2004 2003	
	(In the	ousands)
Financing activities:		
Proceeds from note payable to bank	11,000	47,700
Repayment of note payable to bank	(11,000)	(99,800)
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	(3,335)	(2,806)
Proceeds from issuance of common stock under employee stock purchase plan	113	99
Preferred stock dividend payments	(1,011)	(1,927)
Principal payments on capital lease obligations	_	(268)
Proceeds from option exercises	140	
Additions to deferred financing costs	(50)	(1,466)
· ·		
Net cash provided by financing activities	13,951	(610)
Change in cash and cash equivalents:		
Net increase in cash and cash equivalents	8,140	9,316
Cash and cash equivalents at beginning of period	8,121	752
Cash and cash equivalents at end of period	\$ 16,261	\$ 10,068
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 11,427	\$ 8,156
Income taxes	\$ 16	\$ 93
Non-cash investing and financing activities:		
Preferred stock dividends accrued	\$ 377	\$ 1,915
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	\$ —	\$ 173
Reclassification of assets held for sale to property and equipment	\$ —	\$ 34,403

Nine months ended September 30,

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 September 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 45 of these hotels, consisting of 29 owned hotels, 13 leased hotels and three third-party owned hotels. The remaining 23 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 September 30, 2004 and the consolidated results of operations and cash flows for the periods ended September 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 are listed on the New York Stock Exchange and 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

Through 2003, the Company leased and operated a hotel in Yakima, Washington. 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 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.

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 September 30, 2004 2003		Nine months er 2004	nded September 30, 2003
Revenues:				
Hotels and restaurants	\$50,469	\$49,230	\$129,476	\$126,671
Franchise, central services and				
development	759	973	2,050	2,950
Entertainment	2,533	2,023	7,952	6,008
Real estate	2,144	2,177	6,828	6,843
Corporate services	82	81	248	256
	\$55,987	\$54,484	\$146,554	\$142,728
Operating income (loss):				
Hotels and restaurants	\$ 9,074	\$ 7,948	\$ 12,561	\$ 12,059
Franchise, central services and				
development	271	556	817	1,116
Entertainment	86	84	664	488
Real estate	597	(558)	2,240	1,482
Corporate services	(782)	(792)	(2,629)	(2,539)
	\$ 9,246	\$ 7,238	\$ 13,653	\$ 12,606

6. Earnings Per Common Share

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

	Three months er 2004	nded September 30, 2003	Nine months en 2004	ded September 30, 2003
Numerator:				
Income applicable to common				
shareholders	\$ 3,498	\$ 2,598	\$ 1,578	\$ 1,342
Denominator:				
Weighted-average shares outstanding -				
basic	13,059	13,003	13,043	12,997
diluted (a) (b) (c)	13,345	13,289	13,330	13,283
Earnings per common share -				
basic	\$ 0.27	\$ 0.20	\$ 0.12	\$ 0.10
diluted (a) (b) (c)	\$ 0.26	\$ 0.20	\$ 0.12	\$ 0.10
. , , , , ,				

⁽a) For the three month and nine month periods ended September 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.

- (b) At September 30, 2004 and 2003 the Company had 593,033 and 810,425 options outstanding to purchase common shares, respectively. For the nine months ended September 30, 2004 the dilutive effect of converting 752 options to purchase common shares is included in the calculation of diluted earnings per share. For the three months ended September 30, 2003 and 2004, and for the nine months ended September 30, 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 for its stock based employee plans using fair value measurement provisions in the statement of operations. Had compensation cost for the plans been determined based on the fair value at the grant dates for awards under the plans, reported net income and earnings per share would have been changed to the pro forma amounts indicated below (in thousands, except per share amounts):

_	Three months end	ded September 30, 2003	Nine months end 2004	ded September 30, 2003
Reported income applicable to common shareholders	\$3,498	\$2,598	\$1,578	\$1,342
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	(36)	(14)	(120)	(480)
Pro forma	\$3,462	\$2,584	\$1,458	\$ 865
Basic earnings per common share:				
Reported earnings	\$ 0.27	\$ 0.20	\$ 0.12	\$ 0.10
Stock-based employee compensation, fair value	_	_	(0.01)	(0.03)
Pro forma	\$ 0.27	\$ 0.20	\$ 0.11	\$ 0.07
Diluted earnings per common share:				
Reported earnings	\$ 0.26	\$ 0.20	\$ 0.12	\$ 0.10
Stock-based employee compensation, fair value	_	(0.01)	(0.01)	(0.03)
r ,				
Pro forma	\$ 0.26	\$ 0.19	\$ 0.11	\$ 0.07

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 quarterly 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.

• 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 nine months ended September 30, 2004 and 2003 is as follows (in thousands, except hotel statistics and earnings per share):

	Three months end 2004	ded September 30, 2003	Nine months ende 2004	d September 30, 2003
Consolidated statement of operations data:				
Revenues:				
Hotels and restaurants	\$50,469	\$49,230	\$129,476	\$126,671
Franchise, central services and development	759	973	2,050	2,950
Entertainment	2,533	2,023	7,952	6,008
Real estate	2,144	2,177	6,828	6,843
Corporate services	82	81	248	256
Total revenues	\$55,987	\$54,484	\$146,554	\$142,728
Direct expenses	\$46,069	\$46,534	\$130,596	\$128,082
Operating income	\$ 9,246	\$ 7,238	\$ 13,653	\$ 12,606
Interest expense	\$ 4,082	\$ 2,886	\$ 11,452	\$ 8,241
Income tax expense	\$ 1,827	\$ 1,337	\$ 783	\$ 1,449
Net income	\$ 3,498	\$ 3,232	\$ 1,955	\$ 3,257
Preferred stock dividend	\$ —	\$ (634)	\$ (377)	\$ (1,915)
Income applicable to common shareholders	\$ 3,498	\$ 2,598	\$ 1,578	\$ 1,342
Earnings per common share — basic	\$ 0.27	\$ 0.20	\$ 0.12	\$ 0.10
Earnings per common share — diluted	\$ 0.26	\$ 0.20	\$ 0.12	\$ 0.10
Weighted average shares outstanding — basic	13,059	13,003	13,043	12,997
Weighted average shares outstanding — diluted	13,345	13,289	13,330	13,283
Common size operations data:	,	,	,	,
Revenues:				
Hotels and restaurants	90.2%	90.4%	88.3%	88.7%
Franchise, central services and development	1.4%	1.8%	1.4%	2.1%
Entertainment	4.5%	3.7%	5.4%	4.2%
Real estate	3.8%	4.0%	4.7%	4.8%
Corporate services	0.1%	0.1%	0.2%	0.2%
Total revenues	100.1%	100.0%	100.0%	100.0%
Direct expenses	82.3%	85.4%	89.1%	89.7%
Operating income	16.5%	13.3%	9.3%	8.8%
Interest expense	7.3%	5.3%	7.8%	5.8%
Income tax expense	3.3%	2.5%	0.5%	1.0%
Net income	6.2%	5.9%	1.3%	2.3%
Income applicable to common shareholders	6.2%	4.8%	1.1%	0.9%
Other operating data:		===		
EBITDA	\$12,690	\$11,739	\$ 23,764	\$ 22,994
Net cash provided by operating activities	\$10,434	\$ 9,733	\$ 14,301	\$ 14,166
Net cash used in investing activities	\$ (3,667)	\$ (559)	\$ (20,112)	\$ (4,240)
Net cash provided by (used in) financing activities	\$ (1,086)	\$ (2,624)	\$ 13,951	\$ (610)
Hotel statistics:	A 50 5:	4.2.7	A. 44.24	
RevPAR	\$ 52.71	\$ 49.27	\$ 44.01	\$ 41.25
ADR	\$ 74.72	\$ 73.23	\$ 71.65	\$ 71.14
Average occupancy	70.5%	67.3%	61.4%	58.0%

	September 30, 2004	December 31, 2003
Consolidated balance sheet data:		
Working capital	\$ 4,501	\$ 53
Property and equipment, net	\$292,339	\$264,039
Total assets	\$381,714	\$353,225
Total long-term debt	\$156,127	\$151,437
Debentures due WestCoast Hospitality Capital Trust	\$ 47,423	\$ —
Total liabilities	\$257,106	\$201,036
Preferred stock and related additional paid-in capital	\$ —	\$ 29,412
Total stockholders' equity	\$124,608	\$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):

		ded September 30,	Nine months ended September 30,		
	2004	2003	2004	2003	
EBITDA	\$12,690	\$11,739	\$ 23,764	\$ 22,994	
Income tax expense	(1,827)	(1,337)	(783)	(1,449)	
Interest expense	(4,082)	(2,886)	(11,452)	(8,241)	
Depreciation and	(2.202)	(4.204)	(0.55.4)	(10.047)	
amortization	(3,283)	(4,284)	(9,574)	(10,047)	
Net income	\$ 3,498	\$ 3,232	\$ 1,955	\$ 3,257	

Results of Operations

The Three Months Ended September 30, 2004 Compared with the Three Months Ended September 30, 2003

Revenues

Hotel and restaurant revenues for the three months ended September 30, 2004 increased approximately \$1.2 million, or 2.5%, to \$50.5 million compared to \$49.2 million for the three months ended September 30, 2003.

Revenue from owned and leased hotels was up \$1.8 million compared to the same quarter in 2003. The increase was primarily due to growth of about \$2.3 million in room revenue and a decrease of \$374 thousand in food and beverage revenue as compared to the third quarter of 2003. Other revenue was down \$110 thousand. At our owned and leased hotels, ADR was \$73.34 for the three months ended September 30, 2004 compared to \$72.23 for the three months ended September 30, 2003. Average occupancy in the third quarter of 2004 for owned and leased hotels was 71.3% versus 67.7% for the same period in 2003. The resulting third quarter RevPAR from owned and leased hotels in 2004 of \$52.30 was \$3.40 higher than RevPAR in the third quarter of 2003 of \$48.90.

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 and has continued positive trends into 2004. Our occupancy gains during the first three quarters of 2004 compared to the same periods in 2003 substantiate this belief. These results are typical of the overall national trends. During the third 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.

Our strategy has been to increase occupancy through strategic marketing and investment in our properties, and then to increase rate as demand increases for our rooms. Our occupancy has now increased year on year for each of the past ten calendar months and the resulting demand allowed us to increase average daily rate during the third quarter. The combined effect of this strategy is that our RevPAR has increased at a faster rate than our direct competitors over the past year.

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. Our central reservations and distribution management technology allows us to manage the yield on these ADS channels on a real-time, hotel-by-hotel basis. We have 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 us to maximize the yield of a typically lower rated market segment. We 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. Our success is reflective of our management of these ADS channels and our merchant model agreements. During the third quarter of 2004, we experienced higher system wide ADR compared to the third quarter of 2003 by \$1.49. At the same time, system wide occupancy grew from 67.3% to 70.5% between comparative quarters.

In addition, through the third quarter of 2004, we continued to increase bookings through our focus on direct sales, "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. Our branded websites have become our single largest source of electronically distributed room

revenue. We increased reservation contribution to system hotels over the past year to 36% during the third quarter of 2004 from 28% during the third quarter of 2003. We also began to see the positive effects of our launch of "Net4Guests," our privately-labeled wireless internet service during the third quarter of 2004. Net4Guests provides hotel guests and GuestAwards frequency program members access to free high speed wireless internet.

Our brand strengthening initiatives, marketing efforts and technological upgrades are achieving the desired results. Our central reservations system is able to drive more business to our system hotels and a greater percentage of that business is coming through our branded websites. This growth in branded website revenue creates higher yields.

During the third quarter of 2004 we continued our capital program initiated during the first quarter which significantly improves room amenities with new pillow-top beds and an upgraded pillows and linens package. We also launched a marketing campaign geared specifically to increasing awareness of the Net4Guests and room amenity upgrade programs known as "Stay Comfortable".

Franchise, central services and development revenue for the three months ended September 30, 2004 decreased by \$214 thousand, or 22.0%, to \$759 thousand compared to \$973 thousand for the three months ended September 30, 2003. Net changes in franchise fee income accounted for substantially all of this change, with 24 franchises in place during the third quarter of 2003 compared to 23 during the third quarter of 2004.

Entertainment segment revenue increased \$510 thousand for the three month period ended September 30, 2004 to \$2.5 million from \$2.0 million during the three months ended September 30, 2003. Approximately \$522 thousand of the increase was due to increased demand for the Broadway shows produced in 2004 compared to the shows produced in the third quarter of 2003. Ticketing revenue was flat between comparative periods.

Real estate revenue decreased \$33 thousand for the three month period ended September 30, 2004 to \$2.1 million from \$2.2 million during the three months ended September 30, 2003. The decrease was due primarily to the slightly lower rental rates and fewer achieved percentage rents, partially offset by increased management fee revenue on managed properties.

Direct Expenses

In aggregate, direct expenses for the three month period ended September 30, 2004 decreased to \$46.0 million from \$46.5 million for the three months ended September 30, 2003. This represents a decrease of \$465 thousand or 1.0% between comparable 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 stayed consistent at approximately \$38.8 million for both the three months ended September 30, 2004 and 2003. Hotel room related costs were up \$571 thousand between comparative quarters due primarily to promotional activities, the costs of the Net4 Guests program, and the general increased cost associated with higher occupancies. Room related labor costs, however, were flat between comparative quarters. Food and beverage costs were down \$612 thousand resulting from significantly lower labor costs and the positive effects of our core menu program.

Direct costs for franchise, central services and development were up a nominal \$40 thousand between comparative quarters as activity between the two periods was relatively consistent. In the entertainment segment, direct costs increased \$504 thousand in connection with the successful Broadway presentation in the third quarter of 2004 noted above and increased ticket operating expenses. Real estate segment direct expenses were up \$79 thousand due primarily to increases in maintenance expenses and increases in commission expense.

Depreciation and amortization decreased \$1.0 million between the third quarter of 2004 and the third quarter of 2003, attributable to two reasons. The third quarter of 2003 reflects a depreciation adjustment of \$1.6 million for certain assets previously held for sale in Spokane, Washington for which no such adjustment exists for the third quarter of 2004. This was partially offset by the effect of depreciation of recent capital additions which added to the depreciable base of property and equipment.

For the three months ended September 30, 2004 the net gain on asset disposals was \$134 thousand, related to the recognition of deferred gains over time on both an office building and a hotel totaling \$188,000, offset by a loss on the sale of a land parcel in Yakima. The net gain for the three months ended September 30, 2003 was related to a \$71 thousand gain on the office building and to gains on certain property and equipment dispositions. In connection with that land sale, we extended our catering agreement with the City of Yakima, Washington.

The negligible amount of conversion costs in the third quarter of 2003 represent expenses incurred unrelated to property and equipment to re-brand certain hotels to the Red Lion name. No such costs were incurred during the third quarter of 2004.

Undistributed Corporate Expenses

Undistributed corporate expenses for the three month period ended September 30, 2004 were \$672 thousand compared to \$712 thousand for the three months ended September 30, 2003. The decrease of \$40 thousand was primarily due to decreases in labor costs between periods. 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' expenses, 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 increased by \$2.0 million or 27.7% from \$7.2 million for the third quarter of 2003 to \$9.2 million for the third quarter of 2004. The increase in operating income was primarily due to strong revenue increases in our hotel operating segment for the reasons previously discussed, while aggregate hotel operating costs remained steady.

Interest Expense

Interest expense for the three months ended September 30, 2004 was \$4.1 million compared to \$2.9 million for the three months ended September 30, 2003. The increase of \$1.2 million, or 41.4%, 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 WestCoast Hospitality Capital Trust ("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, the interest is 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 third quarter of 2004 was 8.0% versus 7.2% during the third 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.

Other Income (Expense)

The other income and expense line items are comparable between periods and consistent with our long term historical results.

Income Taxes

Income tax expense for the third quarter of 2004 increased by \$490 thousand to \$1.8 million compared to \$1.3 million for the third quarter of 2003. The increase was primarily due to higher pre-tax net income for the quarter based upon positive performance, partially offset by increased deductions related to interest on the debentures held by the Trust.

Net Income and Income Applicable to Common Shareholders

The net income for the three months ended September 30, 2004 of \$3.5 million was higher than the net income for the three months ended September 30, 2003 of \$3.2 million. The higher income was primarily the result of strong revenue increases in our hotel operating segment for the reasons previously discussed, with aggregate costs remained steady, offset by increased interest expense due to the debentures held by the Trust which were issued in the first quarter of 2004.

Due to the retirement of all of our Series A and Series B preferred stock in February 2004, preferred stock dividends decreased \$634 thousand between the third quarter of 2003 and the third quarter of 2004. As a result, the increase in interest expense was partially offset by the decrease in preferred stock dividends. The resulting income applicable to common shareholders was higher for the third quarter of 2004 compared to the third quarter of 2003 by \$900 thousand.

Earnings Per Share

The earnings per share for the three months ended September 30, 2004 was \$0.27 compared to \$0.20 for the three months ended September 30, 2003. The net income applicable to common shareholders increased \$900 thousand as described above, while the number of weighted average common shares outstanding in both periods remained relatively consistent.

The Nine Months Ended September 30, 2004 Compared with the Nine Months Ended September 30, 2003

Revenues

Hotel and restaurant revenues for the nine months ended September 30, 2004 increased \$2.8 million, or 2.2%, to \$129.5 million compared to \$126.7 million for the nine months ended September 30, 2003.

Revenue from owned and leased hotels was up \$3.6 million compared to the same period in 2003. The increase was primarily due to growth of about \$4.3 million in room revenue between comparable periods, partially offset by declines of \$443 thousand in food and beverage revenue as compared to the first three quarters of 2003 primarily due to the closure of one of our hotel restaurants. Incidental revenues from guest amenities were also down \$254 thousand primarily related to the closure of one of our hotel gift shops, lower telephone revenue and lower movie rental revenue. At our owned and leased hotels, ADR was \$69.77 for the nine months ended September 30, 2004 compared to \$69.60 for the nine months ended September 30, 2003. Average occupancy in the first three quarters of 2004 for owned and leased hotels was 60.4% versus 57.7% for the same period in 2003. The resulting RevPAR from owned and leased hotels for the first nine months of 2004 of \$42.13 was \$1.99 higher than RevPAR in the first nine months of 2003 of \$40.14.

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 and has continued positive trends into 2004. Our occupancy gains during the first three quarters of 2004 compared to the same periods in 2003 substantiate this belief. These results are typical of the overall national trends. During the third 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.

Our strategy has been to increase occupancy through strategic marketing and investment in our properties, and then to increase rate as demand increases for our rooms. Our occupancy has now increased year on year for each of the past ten calendar months and the resulting demand allowed us to increase the average daily rate during the third quarter. The combined effect of this strategy is that our RevPAR has increased at a faster rate than our direct competitors over the past year.

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. Our central reservations and distribution management technology allows us to manage the yield on these ADS channels on a real-time, hotel-by-hotel basis. We have 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 us to maximize the yield of a typically lower rated market segment. We 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. Our success is reflective of our management of these ADS channels and our merchant model agreements. During the first three quarters of 2004, we experienced higher system wide ADR compared to the first three quarters of 2003 by \$0.51. At the same time, system wide occupancy grew from 58.0% to 61.4% between comparative periods.

In addition, through the third quarter of 2004, we continued to increase bookings as a result of our focus on direct sales, "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. Our branded websites have become our single largest source of electronically distributed room revenue. We increased reservation contribution to system hotels over the past year to 34% during the first three quarters of 2004 from 27% during the first three quarters of 2003. We also began to see the positive effects of our launch of "Net4Guests," our privately-labeled wireless internet service during the third quarter of 2004. Net4Guests provides hotel guests and GuestAwards frequency program members access to free high speed wireless internet.

Through 2004 we have conducted our capital program initiated during the first quarter which significantly improves room amenities with new pillow-top beds and an upgraded pillows and linens package. We also launched a marketing campaign geared specifically to increasing awareness of the Net4Guests and room amenity upgrade programs known as "Stay Comfortable".

Our brand strengthening initiatives, marketing efforts and technological upgrades are achieving the desired results. Our central reservations system is able to drive more business to our system hotels and a greater percentage of that business is coming through our branded websites. This growth in branded website revenue creates higher yields.

Franchise, central services and development revenue for the nine months ended September 30, 2004 decreased by \$900 thousand, or 30.5%, to \$2.1 million compared to \$3.0 million for the nine months ended September 30, 2003. Net changes in franchise fee income accounted for substantially all of this change, with an average of 27 franchises in place during the first three quarters of 2003 compared to an average of 22 during the first three quarters of 2004.

Entertainment segment revenue increased approximately \$2.0 million for the nine month period ended September 30, 2004, to \$8.0 million from \$6.0 million during the nine months ended September 30, 2003. Approximately \$481 thousand of the increase was due to presentation of six Broadway shows during the

first nine months of 2004 compared to three such shows presented during the first nine 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 \$6.8 million for both the nine month periods ended September 30, 2004 and 2003. Overall, the segment experienced increased revenues from fees earned on three new management and development projects during the first nine 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, fewer achieved percentage rents and lower rental rates at one of our owned facilities.

Direct Expenses

In aggregate, direct expenses for the nine month period ended September 30, 2004 increased to \$130.6 million from \$128.1 million for the nine months ended September 30, 2003. This represents an increase of \$2.5 million or 2.0% 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 \$2.9 million from \$106.6 million in the first nine months of 2003 to \$109.5 million for the first nine months of 2004. Hotel room related costs were up about \$2.1 million between comparative periods due primarily to labor costs for additional hotel staffing related to higher guest service levels and direct sales efforts, promotional activities, the costs of the Net4Guests program, and the general increased costs associated with higher occupancies. Increases in utility costs and worker's compensation costs also contributed to the increase. Food and beverage costs were down \$813,000 resulting from lower labor costs and the positive effects of our core menu program.

Direct costs for franchise, central services and development were down \$260 thousand between comparative periods due to labor savings and cost containment earlier in the year. The entertainment segment direct costs increased \$1.7 million in connection with the additional Broadway presentations in the first three 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 \$150 thousand due primarily to increases in commissions paid during the first quarter of 2004 and increases in maintenance expenses. Corporate services direct expenses remained consistent between periods.

Depreciation and amortization decreased \$473 thousand or 4.7% between the first nine months of 2004 and the first nine months of 2003, for two primary reasons. The first nine months of 2003 reflected a depreciation catch up adjustment of \$2.1 million for certain assets previously held for sale in Spokane, Washington and Kalispell, Montana, for which no such adjustment exists for the first three quarters of 2004. This was offset by the effect of depreciation on recent capital additions which added to the depreciable base of property and equipment.

For the nine months ended September 30, 2004, the net gain on asset disposals was \$530 thousand, related to the recognition of deferred gains over time on both an office building and a hotel, offset by a loss on the sale of a land parcel in Yakima. In connection with that land sale, we extended our catering agreement with the City of Yakima, Washington. The net loss for the nine months ended September 30, 2003 of \$579 thousand was 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, offset by the recognition of deferred gains over time on the office building.

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

Undistributed Corporate Expenses

Undistributed corporate expenses for the nine month period ended September 30, 2004 were \$2.3 million compared to \$2.0 million for the nine months ended September 30, 2003. The increase of \$265 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 increased by \$1.1 million or 8.3% from \$12.6 million for the first three quarters of 2003 to \$13.7 million for the first three quarters of 2004. During the first two quarters of 2004 we experienced a decline in operating income primarily due to increased costs in our operating segments for the reasons previously discussed. During the third quarter of 2004 operating income rebounded, due to strong revenue increases in our hotel operating segment for the reasons previously discussed, with aggregate costs remaining steady.

Interest Expense

Interest expense for the nine month period ended September 30, 2004 was \$11.5 million compared to \$8.2 million for the nine months ended September 30, 2003. The increase of \$3.2 million, or 39.0%, 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, the interest is 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 three quarters of 2004 was 7.9% versus 6.8% during the first three 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 expense for the nine months ended September 30, 2004 was \$783 thousand. Income tax expense for the nine months ended September 30, 2003 was \$1.4 million. The decrease of \$666 thousand in tax expense was primarily due to increased deductions related to interest on the debentures held by the Trust, partially offset by a higher pre-tax net income from operations.

Other Income (Expense)

The other income and expense line items are comparable between periods and consistent with our long-term historical results. During the first three quarters of 2003, we had \$790 thousand of loan fee write-offs, offset by a contract termination fee of \$350 thousand and other net gains of \$235 thousand.

Net Income (Loss) and Loss Applicable to Common Shareholders

Net income for the nine months ended September 30, 2004 was \$2.0 million, compared to \$3.3 million of net income for the nine months ended September 30, 2003. The lower income is primarily the result of increased interest expense due to the trust preferred offering in the first quarter of 2004, partially offset by stronger performance in our operating segments for the reasons previously discussed.

Due to the retirement of all of our Series A and Series B preferred stock in February 2004, preferred stock dividends decreased \$1.5 million between the first three quarters of 2003 and the comparative quarters in 2004. As a result, the increase in interest expense was partially offset by the decrease in preferred stock dividends. The resulting income applicable to common shareholders was higher for the first three quarters of 2004 compared to the first three quarters of 2003 by \$236 thousand.

Earnings Per Share

The earnings per share for the nine months ended September 30, 2004 was \$0.12 compared to \$0.10 for the nine months ended September 30, 2003. The net income applicable to common shareholders decreased \$236 thousand as described above, while the number of weighted average common shares outstanding in both periods remained relatively consistent.

Liquidity and Capital Resources

Overview

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 cash from operations, long-term secured and unsecured indebtedness, including our credit facility, the issuance of debt or equity securities and 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 existing cash on hand will provide adequate funds for our foreseeable working capital needs, planned capital expenditures and debt service and other obligations through 2005.

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 nine months ended September 30, 2004 totaled \$14.3 million compared to \$14.2 million for the nine months ended September 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 \$13.1 million for the first three quarters of 2004. For the first three quarters of 2003, net income adjusted for those same items totaled \$14.8 million. The difference was predominantly due to lower net operating performance over the nine month comparative periods and non-cash losses for loan fees and property dispositions. Working capital changes, including restricted cash, receivables, accruals, payables, and inventories, provided an additional \$1.2 million in cash during the first three quarters of 2004. In the first three quarters of 2003 working capital changes accounted for a \$584 thousand decrease in cash.

Net cash used in investing activities was \$20.1 million and \$4.2 million for the nine months ended September 30, 2004 and 2003, respectively. Cash additions to property and equipment totaled \$19.1 million in the first three 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 \$10.5 million for other capital projects, primarily at the hotels. This compares to additions for the first three quarters of 2003 of \$5.1 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 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 owns the WHC Building.

Net financing activities provided \$13.9 million during the first three 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 \$3.3 million and no net activity under the credit facility note payable to bank. This compares to the first three quarters of 2003 which reflects a net \$52.1 million repaid on the then existing credit facility note payable to bank, \$55.2 million borrowed under term loans, \$2.7 million borrowed as interim financing related to equipment leases, \$2.8 million paid in scheduled principal payments on long-term debt and capital leases, \$1.5 million paid in deferred financing costs, and \$1.9 million paid in preferred stock dividends.

At September 30, 2004, we had \$20.9 million in cash and cash equivalents including \$4.6 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 \$16.3 million, \$13.0 million was held in short-term, liquid investments also readily available for our use.

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 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 provided a revolving credit facility with a total of \$10 million in borrowing capacity. This included 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 allowed for maximum borrowings of \$3.0 million and was collateralized by our personal property. Line B expired in October 2004 and was not renewed, leaving the maximum borrowing capacity under the credit agreements at \$7.0 million. Interest under the 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 the quarters ended 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 September 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. 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 or third quarters of 2004 and at September 30, 2004 no amounts were outstanding under any portion of the credit agreement.

As of September 30, 2004 we had debt obligations of \$203.5 million, of which 97.9%, or \$199.2 million, were fixed rate debt securities. \$47.4 million of the obligations are uncollateralized debentures due the Trust.

Other Matters

Assets Held for Sale

At December 31, 2002 we classified two office buildings in Spokane, Washington and the WestCoast Kalispell Center Hotel and Mall with an aggregate net carrying value of \$34.4 million as assets held for sale.

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 or third 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 third quarter we spent \$4.0 million on capital improvements. During the remainder of 2004 we expect to spend approximately an additional \$4.0 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.

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 September 30, 2004 (in thousands):

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$156,126	\$ 8,581	\$ 9,948	\$12,194	\$125,403
Operating leases(1)	119,286	6,476	12,953	12,751	87,106
Debentures due WestCoast Hospitality Capital Trust (2)	47,423	_	_	_	47,423
Total contractual obligations(3)	\$322,835	\$15,057	\$22,901	\$24,945	\$259,932

- (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 third 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.

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 September 30, 2004 and December 31, 2003, which are sensitive to changes in interest rates. At September 30, 2004, approximately 2.1% of our debt was subject to changes in market interest rates and was sensitive to those changes. As of September 30, 2004 we had debt obligations of \$203.5 million, of which 97.9%, or \$199.2 million, were fixed rate debt securities. \$47.4 million of the obligations are uncollateralized debentures due the Trust. At September 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 September 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	\$1,017	\$7,967	\$4,287	\$4,600	\$4,921	\$5,295	\$123,643	\$151,730	\$151,730
Variable Rate	\$ 156	\$ 658	\$ 703	\$ 375	\$1,928	\$ 174	\$ 402	\$ 4,396	\$ 4,396
Debentures due WestCoast									
Hospitality Capital Trust	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 47,423	\$ 47,423	\$ 49,079

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

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

Outstanding Debt Obligations

	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
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 September 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. Unregisterd Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

Index to Exhibits

Exhibit Number	Description					
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)					

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					
	Signature	Title	Date				
By:	/s/ Peter P. Hausback	Vice President, Chief Financial Officer (Principal Financial Officer)	October 29, 2004				
	Peter P. Hausback	(Finicipal Financial Officer)					
By:	/s/ Anthony F. Dombrowik	Vice President, Corporate Controller (Principal Accounting Officer)	October 29, 2004				
	Anthony F. Dombrowik	(Finicipal Accounting Officer)					

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: October 29, 2004

/s/ Arthur M. Coffey

Arthur M. Coffey President and Chief Executive Officer

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: October 29, 2004

/s/ Peter P. Hausback

Peter P. Hausback Vice President, Chief Financial 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 September 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.

October 29, 2004

/s/ Arthur M. Coffey

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 September 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.

October 29, 2004

/s/ Peter P. Hausback

Peter P. Hausback Vice President, Chief Financial Officer

End of Filing



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