U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1999
OR

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

For the transition period to

Commission file number 001-13957

CAVANAUGHS HOSPITALITY CORPORATION

(Exact name of registrant as specified in its charter)

Washington	91-1032187
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

201 W. North River Drive, Suite 100, Spokane, WA 99201
(Address of principal executive office)

(509) 459-6100
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

As of July 31, 1999, there were 12,771,847 shares of the Registrant's common stock outstanding.

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CAVANAUGHS HOSPITALITY CORPORATION

Form 10-Q
For the Quarter Ended June 30, 1999

INDEX

Part I - Financial Information

Item 1 - Financial Statements:

- Consolidated Balance Sheets -- December 31, 1998 and June 30, 1999

- Consolidated Statements of Income -- Three and Six Months Ended June 30, 1998 and 1999

- Consolidated Statements of Cash Flows -- Six Months Ended June 30, 1998 and 1999

- Notes to Consolidated Financial Statements

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

PART II - Other Information

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

Item 6 - Exhibits and Reports on Form 8-K

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ITEM 1. FINANCIAL STATEMENTS

CAVANAUGHS HOSPITALITY CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

December 31, 1998 and June 30, 1999
(in thousands, except share data)

	December 31, 1998	June 30, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,267	$ 7,583
Accounts receivable	5,427	6,760
Income taxes refundable	957	--
Inventories	858	941
Prepaid expenses and deposits	400	1,437
Total current assets	11,909	16,721
Property and equipment, net	227,423	229,648
Other assets, net	5,571	6,280
Total assets	$244,903	$252,649
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,831	$ 7,076
Accrued payroll and related benefits	1,477	2,541
Accrued interest payable	1,518	687
Other accrued expenses	3,883	2,234
Income taxes payable	--	521
Long-term debt, due within one year	1,538	1,643
Capital lease obligations, due within one year	634	667
Total current liabilities	11,881	15,369
Long-term debt, due after one year	44,150	43,464
Notes payable to bank	82,480	83,980
Capital lease obligations, due after one year	1,748	1,383
Deferred income taxes	6,349	6,601
Minority interest in partnerships	4,364	2,831
Total liabilities	150,972	153,628
Commitments and contingencies		

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CAVANAUGHS HOSPITALITY CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED), CONTINUED
December 31, 1998 and June 30, 1999
(in thousands, except share data)

	December 31, 1998	June 30, 1999
Stockholders' equity:		
Preferred stock - 5,000,000 shares authorized, $0.01 par value, -0- shares issued and outstanding	$ --	$ --
Common stock - 50,000,000 shares authorized, $0.01 par value; 12,660,847 and 12,771,847 shares issued and outstanding	126	128
Additional paid-in capital	80,892	82,615
Retained earnings	12,913	16,278
Total stockholders' equity	93,931	99,021
Total liabilities and stockholders' equity	$244,903	$252,649

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

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CAVANAUGHS HOSPITALITY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED) for the three and six months ended June 30, 1998 and 1999

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1999	1998	1999
Revenues:				
Hotels and restaurants				
Rooms	$11,668	$15,633	$18,552	$27,008
Food and beverage	5,683	8,016	9,858	14,527
Other	965	1,223	1,747	2,317
Total hotels and restaurants	18,316	24,872	30,157	43,852
Entertainment, management and services	1,008	1,097	2,026	2,426
Rental operations	1,738	2,009	3,514	3,847
Total revenues	21,062	27,978	35,697	50,125
Operating expenses:				
Direct:				
Hotels and restaurants:				
Rooms	2,954	4,158	5,045	7,556
Food and beverage	4,602	6,179	8,160	11,464
Other	440	543	777	980
Total hotels and restaurants	7,996	10,880	13,982	20,000
Entertainment, management and services	718	826	1,415	1,603
Rental operations	347	495	732	1,032
Total direct expenses	9,061	12,201	16,129	22,635
Undistributed operating expenses:				
Selling, general and administrative	2,445	3,407	4,223	6,714
Property operating costs	2,177	3,051	3,977	6,130
Corporate expenses	625	590	842	1,067
Depreciation and amortization	1,417	1,969	2,736	3,899
Total undistributed operating expenses	6,664	9,017	11,778	17,810
Total expenses	15,725	21,218	27,907	40,445
Operating income	5,337	6,760	7,790	9,680
Other income (expense):				
Interest expense, net of amounts capitalized	(1,360)	(2,340)	(4,054)	(4,620)
Interest income	126	91	196	146
Other income	--	4	--	10
Minority interest in partnerships	(85)	(105)	(45)	(55)

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CAVANAUGHS HOSPITALITY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED), CONTINUED for the three and six months ended June 30, 1998 and 1999

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1999	1998	1999
Income before income taxes, extraordinary item and cumulative effect of change in accounting principle	$ 4,018	$ 4,410	$ 3,887	$ 5,161
Income tax provision	1,366	1,397	1,322	1,653
Income before extraordinary item and cumulative effect of change in accounting principle	2,652	3,013	2,565	3,508
Extraordinary item, net of income tax benefit	(530)	--	(530)	(10)
Cumulative effect of change in accounting principle, net of income tax benefit	--	--	--	(133)
Net income	$ 2,122	$ 3,013	$ 2,035	$ 3,365
Income per share -- basic and diluted:				
Income before extraordinary item and cumulative effect of change in accounting principle	$ 0.21	$ 0.24	$ 0.26	$ 0.28
Extraordinary item	(0.04)	--	(0.05)	--
Cumulative effect of change in accounting principle	--	--	--	(0.01)
Net income per share	$ 0.17	$ 0.24	$ 0.21	$ 0.27
Weighted-average common shares outstanding -- basic	12,588	12,690	9,836	12,676
Weighted-average common shares outstanding -- diluted	12,920	13,067	10,077	13,062

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

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CAVANAUGHS HOSPITALITY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

for the six months ended June 30, 1998 and 1999
(in thousands)

	1998	1999
Operating activities:		
Net income	$ 2,035	$ 3,365
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,736	3,899
Minority interest in partnerships	45	55
Extraordinary item	530	10
Cumulative effect of change in accounting principle	--	133
Deferred income taxes	--	252
Compensation expense related to stock issuance	165	165
Change in:		
Accounts receivable	(1,977)	(1,333)
Inventories	(118)	(83)
Prepaid expenses and deposits	211	(1,037)
Other assets	(275)	--
Income taxes receivable/payable	1,144	1,553
Accounts payable	467	4,245
Accrued payroll and related benefits	710	1,064
Accrued interest payable	(235)	(831)
Other accrued expenses	188	(1,649)
Net cash provided by operating activities	5,626	9,808
Investing activities:		
Additions to property and equipment	(27,769)	(5,619)
Issuance of note receivable	(17,112)	(225)
Deposit for acquisition of hotel	(1,980)	--
Other, net	(283)	(535)
Net cash used in investing activities	(47,144)	(6,379)
Financing activities:		
Proceeds from issuance of common stock under employee stock purchase plan	77	--
Net proceeds from initial public offering of common stock	81,659	--
Proceeds from note payable to bank	1,925	8,680
Repayment of note payable to bank	(3,000)	(7,180)
Proceeds from long-term debt	32,971	--
Repayment of long-term debt	(68,319)	(832)
Payments to affiliate	(1,133)	--

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CAVANAUGHS HOSPITALITY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
for the six months ended June 30, 1998 and 1999
(in thousands)

	1998	1999
Financing activities, continued:		
Principal payments on capital lease obligations	$ (267)	$ (332)
Additions to deferred financing costs	(1,123)	(421)
Distribution to minority interest	--	(28)
Net cash provided by (used in) financing activities	42,790	(113)
Change in cash and cash equivalents:		
Net increase in cash and cash equivalents	1,272	3,316
Cash and cash equivalents at beginning of period	4,955	4,267
Cash and cash equivalents at end of period	$ 6,227	$ 7,583
Supplemental disclosure of cash flow information:		
Noncash investing and financing activities:		
Acquisition of property through assumption of capital leases	$ 222	$ --
Issuance of operating partnership units for property acquisitions	3,677	--
Acquisition of property through assumption of debt or issuance of note payable	9,904	250
Stock issued for partial acquisition of partnership interests	879	--
Acquisition of equipment through cancel-lation of note receivable	--	225
Conversion of operating partnership units to common stock	--	1,559

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

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CAVANAUGHS HOSPITALITY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. QUARTERLY INFORMATION:

The unaudited consolidated financial statements included herein have been prepared by Cavanaughs Hospitality Corporation (the Company) 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, 1998 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 period ended December 31, 1998 previously filed with the SEC on Form 10-K.

In the opinion of management, these unaudited consolidated financial statements contain all of the adjustments (normal and recurring in nature) necessary to present fairly the consolidated financial position of the Company at June 30, 1999, the consolidated results of operations for the three and six months ended June 30, 1999 and 1998 and the consolidated cash flows for the six months ended June 30, 1999 and 1998. The results of operations for the periods presented may not be indicative of those which may be expected for a full year.

2. ORGANIZATION:

At June 30, 1998, the Company controlled and operated (through ownership or lease with purchase option agreements) 14 hotel properties. At June 30, 1999, the Company controlled and operated 19 hotel properties in Seattle, Spokane, Yakima, Kennewick and Olympia, Washington; Post Falls, Boise, Twin Falls, Pocatello and Idaho Falls, Idaho; Kalispell and Helena, Montana; Portland, Oregon and Salt Lake City, Utah under its Cavanaughs(R) brand. Additionally, the Company provides computerized ticketing for entertainment events and arranges Broadway and other entertainment event productions. Further, during the second quarter 1999, the Company announced the launch of [www.TicketsWest.com], an Internet ticketing service offering consumers up-to-the-minute information on live entertainment and the ability to make real-time ticket purchases of the best available seats to events through the website. The Company also leases retail and office space in buildings owned by the Company and manages residential and commercial properties in Washington, Idaho and Montana. The Company's operations are segregated into three divisions: (1) hotels and restaurants, (2) entertainment, management and services, and (3) rental operations.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

In April 1998, Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-up Activities" was issued. The SOP requires that all costs of start-up activities and organization costs be expensed as incurred. The Company adopted the provisions of SOP 98-5 on January 1, 1999 and reported the change as a cumulative effect of an accounting change in the consolidated statement of operations. The adoption of SOP 98-5 resulted in the cumulative effect of an accounting change of $133,000, which is net of $68,000 of income taxes, being recognized during the six-month period ended June 30, 1999.

4. LONG-TERM DEBT AND LINE OF CREDIT:

In May 1998, the Company obtained an $80 million revolving secured credit facility with a bank. In February 1999, the credit facility was increased to $100 million. The credit facility requires that the Company maintain certain financial ratios and minimum levels of cash flows. Any outstanding borrowings will bear interest based on the prime rate or LIBOR, plus 180 to 250 basis points depending on the total funded debt levels. The credit facility matures in May 2003. At June 30, 1999, $83,980,000 is outstanding under the credit facility. The Company was in compliance with all required covenants at June 30, 1999.

During the six-month period ended June 30, 1999, the Company paid off certain debt prior to its maturity date. Deferred loan fees associated with this debt of $15,000 has been written off and reported as an extraordinary item, net of a $5,000 income tax benefit.

5. BUSINESS SEGMENTS:

The Company operates in three segments: (1) hotels and restaurants; (2) entertainment, management and services; and (3) rental operations. Revenues of each segment are those that are directly identified with those operations. Operating income for each segment represents revenues less direct operating expenses of each segment. Undistributed operating expenses are not identified by segment.

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5. BUSINESS SEGMENTS, CONTINUED:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1999	1998	1999
Revenues:				
Hotels and restaurants	$ 18,316	$ 24,872	$ 30,157	$ 43,852
Entertainment, management and services	1,008	1,097	2,026	2,426
Rental operations	1,738	2,009	3,514	3,847
	$ 21,062	$ 27,978	$ 35,697	$ 50,125
Operating income:				
Hotels and restaurants	$ 10,320	$ 13,992	$ 16,175	$ 23,852
Entertainment, management and services	290	271	611	823
Rental operations	1,391	1,514	2,782	2,815
Undistributed operating expenses	(6,664)	(9,017)	(11,778)	(17,810)
	$ 5,337	$ 6,760	$ 7,790	$ 9,680

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6. EARNINGS PER SHARE:

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted EPS computations (in thousands, except per share amounts). Also shown is the number of stock options that would have been considerded in the diluted EPS computation if they were not anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1999	1998	1999
Numerator:				
Income before extra-ordinary item and cumulative effect of change in accounting principle	$ 2,652	$ 3,013	$ 2,565	$ 3,508
Extraordinary item	(530)	--	(530)	(10)
Cumulative effect of change in accounting principle	--	--	--	(133)
Net income - basic	2,122	3,013	2,035	3,365
Income effect of dilutive OP Units	85	87	82	98
Net income - diluted	$ 2,207	$ 3,100	$ 2,117	$ 3,463
Denominator:				
Weighted-average shares outstanding - basic	12,588	12,690	9,836	12,676
Effect of dilutive OP Units	332	377	241	386
Effect of dilutive common stock options	(A)	(A)	(A)	(A)
Weighted-average shares outstanding - diluted	12,920	13,067	10,077	13,062
Earnings Per Share - basic and diluted:				
Income per share before extraordinary item and cumulative effect of change in accounting principle	$ 0.21	$ 0.24	$ 0.26	$ 0.28
Extraordinary item	(0.04)	--	(0.05)	nil
Cumulative effect of change in accounting principle	--	--	--	(0.01)
Net income per share - basic and diluted	$ 0.17	$ 0.24	$ 0.21	$ 0.27

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(A) For the three and six months ended June 30, 1999, 1,000,385 stock options were outstanding. For the three and six months ended June 30, 1998, 775,395 stock options were outstanding. The effects of the shares which would be issued upon the exercise of these options have been excluded from the calculation of diluted earnings per share because they are anti-dilutive.

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CAVANAUGHS HOSPITALITY CORPORATION

Part I - Financial Information

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The following discussion and analysis addresses the results of operations for the Company for the three and six months ended June 30, 1998 and 1999. The following should be read in conjunction with the unaudited Consolidated Financial Statements and the notes thereto. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ significantly from those anticipated in these forward-looking statements as a result of certain factors, including those discussed in "Risk Factors" and elsewhere in the Form 10-K for the year ended December 31, 1998, previously filed by the Company with the Securities and Exchange Commission.

The Company's revenues are derived primarily from the Hotels and reflect revenue from rooms, food and beverage and other sources, including telephone, guest services, banquet room rentals, gift shops and other amenities. Hotel revenues accounted for 87.5% of total revenue in the six months ended June 30, 1999 and increased 45.4% from $30.2 million in 1998 to $43.9 million in 1999. This increase was primarily the result of the addition of five (5) hotels and an increase in average daily rate (ADR) from the hotels owned for greater than one year, "Comparable Hotels", from $75.60 in 1998 to $80.74 in 1999, a 6.8% increase. Comparable Hotel revenue per available room (REVPAR) declined 3.1% from $43.78 in 1998 to $42.43 in 1999 primarily due to removal of low rate permanent contract business and the addition of rooms placed in service after renovation. The balance of the Company's revenues are derived from its entertainment, management and services and rental operations divisions. These revenues are generated from ticket distribution handling fees, real estate management fees, sales commissions and rents. In the six months ended June 30, 1999, entertainment, management and services accounted for 4.8% of total revenues and rental operations accounted for 7.7% of total revenues. In March 1999, the Company acquired additional software, development rights, use agreements and non-competition agreement for certain regions of the ticket distribution system it uses in the entertainment division. In April of 1999 the Company launched its Internet site, [www.TicketsWest.Com], which facilitates the real time purchase of entertainment and leisure activities. The rental operations division is expected to represent a smaller percent of total revenues in the future as the Company continues to pursue its hotel and entertainment growth strategy.

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As is typical in the hospitality industry, REVPAR, ADR and occupancy levels are important performance measures. The Company's operating strategy is focused on enhancing revenue and operating margins by increasing REVPAR, ADR, occupancy and operating efficiencies of the Hotels. These performance measures are impacted by a variety of factors, including national, regional and local economic conditions, degree of competition with other hotels in their respective market areas and, in the case of occupancy levels, changes in travel patterns.

The following table sets forth selected items from the consolidated statements of income as a percent of total revenues and certain other selected data:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1999	1998	1999
Revenues:				
Hotels and restaurants	87.0%	88.9%	84.5%	87.5%
Entertainment, management and services	4.8	3.9	5.7	4.8
Rental operations	8.2	7.2	9.8	7.7
Total revenues	100.0%	100.0%	100.0%	100.0%
Direct operating expenses	43.0%	43.6%	45.2%	45.2%
Undistributed operating expenses:				
Selling, general and administrative	11.6	12.2	11.8	13.4
Property operating costs	10.3	10.9	11.1	12.2
Corporate expenses	3.0	2.1	2.4	2.1
Depreciation and amortization	6.7	7.0	7.7	7.8
Total undistributed operating expenses	31.6	32.2	33.0	35.5
Operating income	25.3	24.2	21.8	19.3
Interest expense (net)	5.9	8.0	10.9	8.9
Income before income taxes, extra-ordinary item and cumulative effect of change in accounting principle	19.1	15.8	10.9	10.3
Income tax provision	6.5	5.0	3.7	3.3
Income before extraordinary item and cumulative effect of change in accounting principle	12.6%	10.8%	7.2%	7.0%
Comparable Hotels:				
REVPAR	$48.89	$48.83	$43.78	$42.23
ADR	$77.22	$81.23	$75.60	$80.74
Occupancy	63.3%	60.1%	57.9%	52.6%

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RESULTS OF OPERATIONS

COMPARISON OF SIX MONTHS ENDED JUNE 30, 1999 TO SIX MONTHS ENDED
JUNE 30, 1998

Total revenues increased $14.4 million, or 40.4%, from $35.7 million in 1998 to $50.1 million in 1999. This increase is attributed primarily to revenue generated from increases in total rooms occupied and the addition of five (5) hotels.

Total hotel and restaurant revenues increased $13.7 million, or 45.4%, from $30.2 million in 1998 to $43.9 million in 1999. ADR for the Comparable Hotels increased $5.14, or 6.8%, from $75.60 in 1998 to $80.74 in 1999. Comparable Hotel REVPAR decreased $1.35, or 3.1% from $43.78 in 1998 to $42.43 in 1999. Available room nights increased 58.7% in 1999. Total room revenue increased 45.6% from $18.6 million in 1998 to $27.0 million in 1999. The results reflect the addition of five (5) hotels which contributed, in part, to this increase in revenues.

Entertainment, management and services revenues increased $400,000, or 19.7% in 1999. Entertainment revenue increased due to additional ticket convenience fees from the Company's Millennium Broadway Series. Tickets became available for purchase in March 1999.

Rental income increased 9.5%, to $3.8 million in 1999. This increase is primarily from lease escalations and new lease contracts in the Company's office and retail buildings.

Direct operating expenses increased $6.5 million, or 40.3%, from $16.1 million in 1998 to $22.6 million in 1999, primarily due to the increase in the number of hotel guests served and the addition of five
(5) hotels. Direct operating expenses as a percentage of total revenues remained constant at 45.2% in both 1998 and 1999.

Total undistributed operating expenses increased $6.0 million, or 51.2%, from $11.8 million in 1998 to $17.8 million in 1999. Total undistributed operating expenses include selling, general and administrative expenses, which increased 58.9% from $4.2 million in 1998 to $6.7 million in 1999, and depreciation and amortization, which increased 42.5% from $2.7 million in 1998 to $3.9 million in 1999. Total undistributed operating expenses as a percentage of total revenues increased 2.5% from 33.0% in 1998 to 35.5% in 1999. The increase in undistributed operating expenses as a percentage of total revenues is primarily attributed to the addition of five (5) hotels and the additional legal, accounting and administrative expenses of being a publicly traded company.

Operating income increased $1.9 million, or 24.3%, from $7.8 million in 1998 to $9.7 million in 1999. As a percentage of total revenues, operating income decreased from 21.8% in 1998 to 19.3% in 1998.

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The increase in operating income is due primarily to the addition of five (5) hotels.

Interest expense increased $566,000, or 14.0%, from $4.1 million in 1998 to $4.6 million in 1999. This increase is primarily related to additional debt incurred with the acquisition of the five (5) hotels.

Income tax provision was $1.7 million in 1999 versus $1.3 million in 1998. The increase in income tax provision is due to the increase in the income before income taxes. The effective income tax rate was 32% for 1999 and 34% for 1998. The provision for income tax rate is lower in 1999 due to the Company qualifying for certain historical rehabilitation tax credits.

Income before extraordinary item and cumulative effect of change in accounting principle increased $0.9 million from $2.6 million in 1998 to $3.5 million in 1999. This increase is primarily attributed to the addition of five (5) hotels in the period.

Net income increased $1.3 million, or 65.4%, from $2.0 million in 1998 to $3.4 million in 1999.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 1999 TO THREE MONTHS ENDED
JUNE 30, 1998

Total revenues increased $6.9 million, or 32.8%, from $21.1 million in 1998 to $28.0 million in 1999. This increase is attributed primarily to revenue generated from increases in total rooms occupied and the addition of five (5) hotels.

Total hotel and restaurant revenues increased $6.6 million, or 35.8%, from $18.3 million in 1998 to $24.9 million in 1999. ADR for the Comparable Hotels increased $4.01, or 5.2%, from $77.22 in 1998 to $81.23 in 1999. Comparable Hotel REVPAR decreased $0.06, or 0.1% from $48.89 in 1998 to $48.83 in 1999. Available room nights increased 48.3% in 1999. Total room revenue increased 34.0% from $11.7 million in 1998 to $15.7 million in 1999. The results reflect the addition of five (5) hotels which contributed, in part, to this increase in revenues.

Entertainment, management and services revenues increased $89,000, or
8.8% in 1999. Entertainment revenue increased due to additional ticket convenience fees from the Company's Millennium Broadway Series. Tickets became available for purchase in March 1999.

Rental income increased 15.6%, to $2.0 million in 1999. This increase is primarily from lease escalations and new lease contracts in the Company's office and retail buildings.

Direct operating expenses increased $3.1 million, or 34.7%, from $9.1 million in 1998 to $12.2 million in 1999, primarily due to the increase in the number of hotel guests served and the addition of five
(5) hotels. This represents an increase in direct operating expenses as a percentage of total revenues from 43.0% in 1998 to 43.6% in 1999.

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Total undistributed operating expenses increased $2.4 million, or 35.3%, from $6.7 million in 1998 to $9.0 million in 1999. Total undistributed operating expenses include selling, general and administrative expenses, which increased 39.4% from $2.4 million in 1998 to $3.4 million in 1999, and depreciation and amortization, which increased 38.9% from $1.4 million in 1998 to $2.0 million in 1999. Total undistributed operating expenses as a percentage of total revenues increased 0.6% from 31.6% in 1998 to 32.2% in 1999. The increase in undistributed operating expenses as a percentage of total revenues is primarily attributed to the addition of five (5) hotels and the additional legal, accounting and administrative expenses of being a publicly traded company.

Operating income increased $1.4 million, or 26.6%, from $5.3 million in 1998 to $6.8 million in 1999. As a percentage of total revenues, operating income decreased from 25.3% in 1998 to 24.2% in 1998. The increase in operating income is due primarily to the addition of five (5) hotels.

Interest expense increased $1.0 million, or 72%, from $1.3 million in 1998 to $2.3 million in 1999. This increase is primarily related to the additional debt incurred with the acquisition of the five (5) hotels.

Income tax provision was $1.4 million in 1999. The effective income tax rate for 1999 was 32% and 34% in 1998.

Income before extraordinary item and cumulative effect of change in accounting principle increased $0.4 million from $2.7 million in 1998 to $3.0 million in 1999. This increase is primarily attributed to the addition of five (5) hotels in the period.

Net income increased $891,000, or 42.0%, from $2.1 million in 1998 to $3.0 million in 1999.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company's principal sources of liquidity have been cash on hand, cash generated by operations and borrowings under a revolving credit facility. Cash generated by operations in excess of operating expenses is used for capital expenditures and to reduce amounts outstanding under the Revolving Credit Facility. Hotel acquisitions, development and expansion have been and will be financed through a combination of internally generated cash, borrowing under credit facilities, and the issuance of Common Stock or OP Units. In April 1998, the Company completed an initial public offering. Proceeds net of issuance cost were $81.3 million and were used to pay debt, fund acquisitions and other corporate purposes.

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The Company's short-term capital needs include food and beverage inventory, payroll and the repayment of interest expense on outstanding mortgage indebtedness. Historically, the Company has met these needs through internally generated cash. The Company's long- term capital needs include funds for property acquisitions, scheduled debt maturities and renovations and other non-recurring capital improvements. The Company anticipates meeting its future long-term capital needs through additional debt financing secured by the Hotels, by unsecured private or public debt offerings or by additional equity offerings or the issuances of OP Units, along with cash generated from internal operations.

At June 30, 1999, the Company had $7.6 million in cash and cash equivalents. The Company has made extensive capital expenditures over the last two years, investing $123.6 million during the year ended December 31, 1998, and $6.2 million in owned and joint venture properties through June 30, 1999. These expenditures included guest room, lounge and restaurant renovations, public area refurbishment, telephone and computer system upgrades, tenant improvements, property acquisitions, construction, and corporate expenditures and were funded from the initial public offering, issuance of operating partnership units, operating cash flow and debt. The Company establishes reserves for capital replacement in the amount of 4.0% of the prior year's actual gross hotel income to maintain the Hotels at acceptable levels. Acquired hotel properties have a separate capital budget for purchase, construction, renovation, and branding costs. Capital expenditures planned for Hotels in 1999 are expected to be approximately $12.8 million. Management believes the consistent renovation and upgrading of the Hotels and other properties is imperative to its long-term reputation and customer satisfaction.

To fund its acquisition program and meet its working capital needs, the Company has a Revolving Credit Facility. The Revolving Credit Facility has an initial term of five years and an annualized fee for the unutilized portion of the facility. The Company selects from four different interest rates when it draws funds: the lender's prime rate or one, three, or six month LIBOR plus the applicable margin of 180 to 250 basis points, depending on the Company's ratio of total funded debt to EBITDA. The Revolving Credit Facility allows for the Company to draw funds based on the trailing 12 months performance on a pro forma basis for both acquired and owned properties. Funds from the Revolving Credit Facility may be used for acquisitions, renovations, construction and general corporate purposes. The Company believes the funds available under the Revolving Credit Facility and additional debt instruments will be sufficient to meet the Company's near term growth plans. The Operating Partnership is the borrower under the Revolving Credit Facility. The obligations of the Operating Partnership under the Revolving Credit Facility are fully guaranteed by the Company. Under the Revolving Credit Facility, the Company is permitted to grant new deeds of trust on any future acquired properties. Mandatory prepayments are required to be made in various circumstances including the disposition of any property, or future acquired property, by the Operating Partnership.

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The Revolving Credit Facility contains various representations, warranties, covenants and events of default deemed appropriate for a Credit Facility of similar size and nature. Covenants and provisions in the definitive credit agreement governing the Revolving Credit Facility include, among other things, limitations on: (i) substantive changes in the Company's and Operating Partnership's current business activities, (ii) liquidation, dissolution, mergers, consolidations, dispositions of material property or assets involving the Company and its affiliates or their assets, as the case may be, and acquisitions of property or assets of others, (iii) the creation or existence of deeds of trust or other liens on property or assets, (iv) the addition or existence of indebtedness, including guarantees and other contingent obligations, (v) loans and advances to others and investments in others, (vi) redemption of subordinated debt,
(vii) amendment or modification of certain material documents or of the Articles in a manner adverse to the interests of the lenders under the Revolving Credit Facility, (viii) payment of dividends or distributions on the Company's capital stock, and (ix) maintenance of certain financial ratios. Each of the covenants described above provide for certain ordinary course of business and other exceptions. If the Company breaches any of these covenants and does not obtain a waiver of that breach, the breach will constitute an event of default under the Revolving Credit Facility. At June 30, 1999, the Company had $84.0 million outstanding under the Revolving Credit Facility and was in compliance with all required covenants. The Revolving Credit Facility restricted the Company from paying any dividends as of June 30, 1999.

In addition to the Revolving Credit Facility, as of June 30, 1999, the Company had debt and capital leases outstanding of approximately $47.2 million consisting of primarily variable and fixed rate debt secured by individual properties.

The Company believes that cash generated by operations will be sufficient to fund the Company's operating strategy for the foreseeable future, and that any remaining cash generated by operations, together with capital available under the Revolving Credit Facility (subject to the terms and covenants to be included therein) and additional debt financing, will be adequate to fund the Company's growth strategy in the near term. Thereafter, the Company expects that future capital needs, including those for property acquisitions, will be met through a combination of net cash provided by operations, borrowings and additional issuances of Common Stock or OP Units.

SEASONALITY

The lodging industry is affected by normally recurring seasonal patterns. At most Hotels, demand is higher in the late spring through early fall (May through October) than during the balance of the year. Demand also changes on different days of the week, with Sunday generally having the lowest occupancy. Accordingly, the Company's revenue, operating profit and cash flow are lower during the first and fourth calendar quarters and higher during the second and third calendar quarters.

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INFLATION

The effect of inflation, as measured by fluctuations in the Consumer Price Index, has not had a material impact on the Company's revenues or net loss during the periods under review.

YEAR 2000 ASSESSMENT

BACKGROUND: The "Year 2000 problem" arose because many existing computer programs use only the last two digits to refer to a year. Therefore, these computer programs do not properly recognize a year that begins with "20" instead of the familiar "19". If not corrected, many computer applications could fail or create erroneous results. The extent of the potential impact of the Year 2000 problem is not yet known, and if not timely corrected, could affect the global economy.

State of Readiness:

IT SYSTEMS: The Company has completed 100% of the assessment of all of its information technology("IT") hardware and software systems for Year 2000 issues. Of the critical hardware and software applications evaluated (hardware and software applications for reservation, accounting, payroll and billing functions), only the payroll application has been determined to be non-compliant with Year 2000 functionality. The Company had anticipated retiring its non-compliant payroll application independent of any Year 2000 issues and will complete replacement of it with a Year 2000 compliant system by September 1999. Individual older personal computers which are scheduled for replacement in ordinary course of upgrades are not included in these percentages. The Company relies upon certifications from the manufacturers, developers and authorized vendors of the specific hardware and software applications for evaluation of compliance with Year 2000 functionality.

EMBEDDED SYSTEMS: The Company has completed substantially all of the assessment of its critical Embedded Technology systems, which are those systems in properties owned or leased by the Company in which a microprocessor is embedded in equipment controlling building environment, power, lighting, transportation, security, and fire safety. The evaluation completed to date has not revealed any critical Embedded System which is not (or will not become so with minor software modifications) compliant with Year 2000 functionality. Embedded Systems in properties for which the Company provides management services but which are not owned or leased by the Company are not included in these percentages. The Company relies upon certifications from the manufacturers, developers and authorized vendors of the specific components containing Embedded Systems for evaluation of compliance with Year 2000 functionality.

THIRD PARTY SERVICES: The Company has completed substantially all of the assessment of services provided by third parties with which the Company has a material relationship. These material Third Party Services include the private companies and municipalities supplying

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all utilities and communications to the Company. Evaluation was by means of review of representations made by the third parties or of responses to written questionnaires by the Company to the third parties. The Company does not anticipate that its exposure to a failure of Third Party Services to be Year 2000 compliant will differ from the exposure of communities at large to such failure.

COST TO ADDRESS YEAR 2000 ISSUES: The Company's projection of capital expenditures and other financial items related to remediation and testing of Year 2000 issues is necessarily an estimate because it anticipates how remediation and testing will proceed in the future. This assessment also cannot include property specific issues for properties which may be acquired in the future and have not as yet been evaluated. Nevertheless, based on the evaluation completed to date, the costs to the Company of replacing or modifying IT and Embedded Systems to bring them to Year 2000 compliance does not appear to be material. The preceding statement does not include the cost of replacement and modification of systems for which the replacement or modification was not accelerated by Year 2000 issues, such as the Company's payroll system, the costs for which are included in the normal capital and operating budgets of the Company.

RISKS OF YEAR 2000 ISSUES: The only certainty about the Year 2000 problem is the difficulty of predicting with certainty what will happen. The Company cannot guarantee that its efforts will prevent all consequences. The failure of vendors, suppliers, customers, transportation systems and utilities systems to anticipate and solve Year 2000 issues could impact the Company and each community in which it operates. The Company has not identified a material effect from Year 2000 issues on the Company's results of operations, liquidity, and financial condition. The worst case effects would appear to be analogous to a natural disaster such as a storm or flood, with the primary effect being a temporary interruption of utilities, transportation and communication services.

CONTINGENCY PLANS: Each property owned and/or managed by the Company has developed a contingency plan in order to respond to any Year 2000 problem-related interruption of such property's utility and communication services. The Company anticipates completing an update of the operational contingency plans for such properties before January 1, 2000. The Company has solicited from its material Third Party Service Providers information with respect to such providers' responses to and compliance with the Year 2000 problem. The Company will, on an on-going basis, carefully monitor the responses it receives from these Third Party Service Providers. Nevertheless, there can be no assurance that such plans will be adequate or completed in a timely manner and the responses developed by the Company's material Third Party Service Providers are beyond the general operational control of the Company.

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This assessment also cannot include property specific issues for properties which may be acquired in the future and have not as yet been evaluated. Nevertheless, based on the evaluation completed to date, the costs to the Company of replacing or modifying IT and Embedded Systems to bring them to Year 2000 compliance does not appear to be material. The preceding statement does not include the cost of replacement and modification of systems for which the replacement or modification was not accelerated by Year 2000 issues, such as the Company's payroll system, the costs for which are included in the normal capital and operating budgets of the Company.

NEW ACCOUNTING PRONOUNCEMENTS

In April 1998, Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-up Activities" was issued. The SOP requires that all costs of start-up activities and organization costs be expensed as incurred. The Company adopted the provisions of SOP 98-5 on January 1, 1999 and reported the change as a cumulative effect of an accounting change of $133,000, which is net of income taxes, in the statement of operations.

Part II - Other Information

ITEMS 1, 2, 3 and 5 of Part II are omitted from this report as they are not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the annual meeting of shareholders on April 19, 1999, the following actions were taken:

Total Outstanding Shares: 12,660,847

1. Election of Directors

Name	Votes For	PCT	Votes Against
Richard L. Barbieri	11,044,096	87%	2,975
Robert G. Templin	11,044,096	87%	2,975

2. Ratification of PricewaterhouseCoopers LLP as independent auditors for the year ending December 31, 1999

Votes For	PCT	Votes Against	Votes Abstained
11,040,596	87%	1,082	5,413

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 Financial Data Schedule

(b) Reports on Form 8-K

No reports on Form 8-K were filed for the three months ended June 30, 1999.

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CAVANAUGHS HOSPITALITY CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

CAVANAUGHS HOSPITALITY CORPORATION
(Registrant)

Date: August 10, 1999 By: /s/ Arthur M. Coffey
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Arthur M. Coffey, Executive Vice President and Chief Financial Officer

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ARTICLE 5
MULTIPLIER: 1000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1999
PERIOD END	JUN 30 1999
CASH	7583
SECURITIES	0
RECEIVABLES	6837
ALLOWANCES	(77)
INVENTORY	941
CURRENT ASSETS	16721
PP&E	273559
DEPRECIATION	(43911)
TOTAL ASSETS	252649
CURRENT LIABILITIES	15369
BONDS	128827
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	128
OTHER SE	98893
TOTAL LIABILITY AND EQUITY	252649
SALES	50125
TOTAL REVENUES	50125
CGS	22635
TOTAL COSTS	40445
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	4620
INCOME PRETAX	5161
INCOME TAX	1653
INCOME CONTINUING	3508
DISCONTINUED	0
EXTRAORDINARY	(10)
CHANGES	(133)
NET INCOME	3365
EPS BASIC	0.27
EPS DILUTED	0.27

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