AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 27, 1998

REGISTRATION NO. 333-44491

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CAVANAUGHS HOSPITALITY CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

WASHINGTON (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	7011 (PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	91-1032187 (I.R.S. EMPLOYER IDENTIFICATION NUMBER)

201 W. NORTH RIVER DRIVE, SUITE 100 SPOKANE, WASHINGTON 99201 (509) 459-6100 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

DONALD K. BARBIERI
PRESIDENT AND CHIEF EXECUTIVE OFFICER
CAVANAUGHS HOSPITALITY CORPORATION
201 W. NORTH RIVER DRIVE,
SUITE 100 SPOKANE, WASHINGTON 99201
(509) 459-6100
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF AGENT FOR SERVICE)

COPIES TO:

BARBRY LAWRENCE, ESQ. BRIAN HOYE, ESQ. KAYE, SCHOLER, FIERMAN, HAYS & HANDLER, LLP 1999 AVENUE OF THE STARS, SUITE 1600 LOS ANGELES, CALIFORNIA 90067 (310) 788-1000	JAY L. BERNSTEIN, ESQ. ROGERS & WELLS 200 PARK AVENUE NEW YORK, NEW YORK 10166 (212) 878-8000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [_]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]_____ .

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If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]_____ .

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]_____ .

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH
SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID
SECTION 8(a), MAY DETERMINE.

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+INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A
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+REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE
+
+SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY
+
+OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT
+
+BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR
+
+THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE
+
+SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE
+
+UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF
+
+ANY SUCH STATE.
+

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SUBJECT TO COMPLETION, DATED FEBRUARY 27, 1998

PROSPECTUS

5,175,000 SHARES [LOGO OF CAVANAUGHS HOSPITALITY CORPORATION]
CAVANAUGHS HOSPITALITY CORPORATION

COMMON STOCK

All of the shares of common stock, par value $.01 per share (the "Common Stock"), offered hereby (the "Offering") are being sold by Cavanaughs Hospitality Corporation (the "Company"). Prior to the Offering, there has been no public market for the Common Stock of the Company. Upon completion of the Offering, the Company's current shareholders as a group will own approximately 57.7% of the outstanding shares of Common Stock. As a result these shareholders will be able to control all corporate matters of the Company that are subject to shareholder approval, including the election of directors. The Company anticipates that the initial public offering price per share will be between $12.00 and $14.00. See "Underwriting" for a discussion of the factors that will be considered in determining the initial public offering price. Application has been made to list the Common Stock on the New York Stock Exchange (the "NYSE") under the symbol "CVH."

SEE "RISK FACTORS" BEGINNING ON PAGE 11 FOR A DISCUSSION OF CERTAIN MATERIAL RISKS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE COMMON STOCK.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS(1)	PROCEEDS TO COMPANY(2)
Per Share.....	$	$	$
Total(3).....	$	$	$

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(1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
(2) Before deducting expenses of the Offering payable by the Company estimated to be $.
(3) The Company has granted the several Underwriters a 30-day over-allotment option to purchase up to 776,250 additional shares of Common Stock on the same terms and conditions set forth above. If such additional shares are purchased by the Underwriters, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

The shares of Common Stock are offered by the Underwriters when, as and if delivered to and accepted by them, subject to their right to withdraw, cancel or reject orders in whole or in part and subject to certain other conditions. It is expected that delivery of certificates representing the shares of Common Stock will be made against payment on or about , 1998 at the office of CIBC Oppenheimer Corp., CIBC Oppenheimer Tower, One World Financial Center, New York, New York 10281.

CIBC OPPENHEIMER NATIONSBANC MONTGOMERY SECURITIES LLC

The date of this Prospectus is , 1998

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[ON THE INSIDE FRONT COVER OF THE PROSPECTUS IS A MAP OF CERTAIN STATES IN THE NORTHWESTERN UNITED STATES HIGHLIGHTING VARIOUS CITIES AND, BELOW, THE LOCATIONS WHERE THE COMPANY HAS PROPERTIES AND PROVIDES ENTERTAINMENT, MANAGEMENT AND SERVICES.]

[ON THE INSIDE BACK COVER OF THE PROSPECTUS IS A COLLAGE REPRESENTING FEATURES OF THE ENTERTAINMENT, MANAGEMENT AND SERVICES DIVISION AND PHOTOS OF SOME OF THE COMPANY'S HOTELS, OFFICE AND RETAIL BUILDINGS]

CERTAIN PERSONS PARTICIPATING IN THE OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK. SUCH TRANSACTIONS MAY INCLUDE THE PURCHASE OF THE COMMON STOCK TO STABILIZE ITS MARKET PRICE, THE PURCHASE OF THE COMMON STOCK TO COVER SYNDICATE SHORT POSITIONS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

NO ACTION HAS BEEN OR WILL BE TAKEN IN ANY JURISDICTION BY THE COMPANY OR BY ANY UNDERWRITER THAT WOULD PERMIT A PUBLIC OFFERING OF THE COMMON STOCK OR POSSESSION OR DISTRIBUTION OF A PROSPECTUS IN ANY JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED, OTHER THAN IN THE UNITED STATES. PERSONS INTO WHOSE POSSESSION THIS PROSPECTUS COMES ARE ADVISED BY THE COMPANY AND THE UNDERWRITERS TO INFORM THEMSELVES ABOUT, AND TO OBSERVE ANY RESTRICTIONS AS TO, THE OFFERING OF THE COMMON STOCK AND THE DISTRIBUTION OF THIS PROSPECTUS.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial data, including the Combined Financial Statements and notes thereto, appearing elsewhere in this Prospectus. Unless the context otherwise requires, all references in this Prospectus to the "Company" include Cavanaughs Hospitality Corporation, its subsidiaries, including Cavanaughs Hospitality Limited Partnership, a Delaware limited partnership (the "Operating Partnership"), and its predecessors. Unless otherwise indicated, all information in this Prospectus (i) assumes an initial public offering price of $13.00 per share (which is the midpoint of the range set forth on the cover page of this Prospectus), (ii) gives retroactive effect to the merger of Goodale & Barbieri Companies, the Company's predecessor, and Barbieri Investment Company which occurred in November 1997 (the "Merger"), whereby the Company was recapitalized and 7,072,025 shares of common stock, par value $.01 per share (the "Common Stock"), were issued to the existing shareholders and
(iii) assumes that the Underwriters' over-allotment option is not exercised. As used herein, the term "Northwest" includes the states of Washington, Oregon, Idaho, Montana, Utah and Alaska, northern California and the Canadian provinces of Alberta and British Columbia.

THE COMPANY

Cavanaughs Hospitality Corporation is a hotel operating company that owns, operates, acquires, develops, renovates and repositions full service hotels in the Northwest under its proprietary brand name, "Cavanaughs(TM)". The Company's hotel portfolio contains 11 full service hotels (the "Hotels"), with 2,369 guest rooms and approximately 120,000 square feet of meeting space, located in Seattle, Spokane, Yakima and Kennewick, Washington; Idaho Falls and Post Falls, Idaho; and Kalispell, Montana. The Company plans to pursue additional growth opportunities by continuing to acquire and develop full service hotels in the Northwest. The Company has entered into purchase agreements to acquire two additional full service hotels, containing 343 guest rooms and approximately 14,500 square feet of meeting space, located in Kalispell, Montana and Portland, Oregon for an aggregate purchase price of approximately $15.5 million. Substantially all of the Company's assets, including the Hotels, are owned by the Operating Partnership, the day to day operations of which are managed by the Company in its capacity as sole general partner. With more than 20 years of experience in the lodging industry, management believes the Company enjoys an excellent reputation in, and its Cavanaughs brand name is well recognized throughout, the Northwest. The Company also provides entertainment services, including event ticketing and theatrical presentations and other special events, property management services for third parties and owns and manages retail and office properties.

The Company is seeking to become the dominant full service hotel company in the Northwest by providing customers with access to a Cavanaughs brand hotel in multiple locations throughout the region. As a result of consolidation among hotel chains, the Company believes there is an absence of a dominant Northwest based, regionally focused hotel company. The Company's growth strategy focuses on: (i) the acquisition and re-branding of full service hotels with the Cavanaughs name, (ii) the acquisition, conversion and redevelopment of non- hotel properties into Cavanaughs brand hotels, (iii) the construction of new Cavanaughs hotels and (iv) the expansion of existing Cavanaughs Hotels.

The Company's operating strategy is designed to enhance its revenue and operating margins by increasing revenue per available room ("REVPAR"), average daily rates ("ADR"), occupancy and operating efficiencies at the Hotels. This strategy includes: (i) building brand name recognition by maintaining its strategic focus on the Northwest; (ii) promoting a coordinated marketing program utilizing corporate level sales and marketing departments in conjunction with local hotel-based sales and marketing personnel; (iii) controlling operating expenses and achieving cost reductions through operating efficiencies and economies of scale; (iv) enhancing guest satisfaction and loyalty by providing high quality service; (v) utilizing the Company's yield management

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and proprietary management information systems to enable the general managers of each Hotel to optimize REVPAR, ADR, occupancy and net income; (vi) maintaining a consistent level of quality at the Hotels through its maintenance and capital expenditure programs; (vii) emphasizing the quality of the Company's food and beverage services to attract convention, group and special event business and to create local awareness of the Hotels; (viii) providing valuable guest benefit programs that promote customer loyalty, such as frequent flier mileage and repeat guest programs; and (ix) attracting and retaining qualified employees by providing on-going training and stock incentive programs at all levels of employment to enhance productivity and align the efforts of employees with the Company's objectives. For the fiscal year ended October 31, 1997, the Company's revenues were $52.0 million, operating income was $10.6 million, net income was $1.7 million, REVPAR was $45.72 and ADR was $73.43. On a pro forma basis, giving effect to the three Hotels acquired since October 31, 1997, the two hotels under contract to be acquired and the Offering, for the year ended October 31, 1997, the Company's revenues were $77.4 million, operating income was $14.5 million, net income was $5.5 million, REVPAR was $41.21 and ADR was $68.94.

The Company has received a commitment from U.S. Bank to provide, upon consummation of the Offering, up to $80.0 million under a revolving credit facility (the "Revolving Credit Facility") which will be used by the Company to finance property acquisitions, development and capital improvements and for general corporate purposes. As an alternative to debt financing, the Company may issue shares of Common Stock or units of limited partner interests in the Operating Partnership ("OP Units") as consideration in future hotel acquisitions. The issuance of OP Units in exchange for hotels may allow the current owners of such hotels to achieve certain tax advantages when selling such hotels to the Company.

In addition to the Hotels, the Company operates two other divisions: (i) entertainment, management and services and (ii) rental operations. The entertainment, management and services division includes computerized event ticketing through G&B Select-a-Seat, which was founded in 1987 and distributed in excess of 2.0 million tickets in 1997, and the presentation of shows and special events through G&B Presents, which was also founded in 1987 and has presented over 79 Broadway theatrical presentations and special events in the last ten years. These services generate income from ticket sales and handling fees as well as additional room occupancy at the Hotels. The entertainment, management and services division is supported by the same Company-operated toll- free call center (the "Toll-Free Call Center") used for hotel reservations. The Company's rental operations division includes ownership of three office properties and one retail property containing in excess of 590,000 square feet of leasable space, the majority of which are located near the Hotels, and third-party management of more than 3.1 million square feet of retail and office properties and approximately 2,200 residential units throughout the Northwest.

The Company, which was formerly known as Goodale & Barbieri Companies, has been a family-owned enterprise since it was founded in 1937. Between 1937 and 1976, the Company focused on third-party property management services and real estate development in Spokane, Washington. The Company's history of owning and operating hotels commenced in 1976 when it constructed the River Inn in Spokane. In 1980, the Company established its proprietary Cavanaughs brand name. After changing its name in October 1997 to Cavanaughs Hospitality Corporation, the Company merged with Barbieri Investment Company, an affiliated Washington corporation ("BIC"), effective November 1, 1997. In connection with its merger with BIC, the Company contributed certain assets not related to its core hospitality business, including, among other things, a long-term residence inn and a milk processing and distribution business, to a wholly-owned subsidiary and distributed the capital stock of such subsidiary, as well as the capital stock of another wholly-owned subsidiary owning recreation real estate in Priest Lake, Idaho and a retail sales operation, to the shareholders of the Company. Shortly thereafter, the Company contributed substantially all of its assets to the Operating Partnership in exchange for general and limited partner interests therein. The Company is the sole general partner of the Operating Partnership and owns a controlling 98.8% interest therein. All of the Hotels and the other assets of the Company are held by or for the benefit of, and substantially all of the Company's operations are conducted through, the Operating Partnership.

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Since 1968 when Donald Barbieri, the Company's Chairman, President and Chief Executive Officer, joined the Company, the Company has grown from five employees to approximately 1,900 employees. The Company's principal executive offices are located at 201 W. North River Drive, Suite 100, Spokane, Washington 99201 and its telephone number is (509) 459-6100. The Company's website address is www.cavanaughs.com.

INDUSTRY OVERVIEW

The domestic lodging industry completed its third year of record profitability in 1996, during which time it produced record income of $12.5 billion. Coopers & Lybrand L.L.P.'s Hospitality Directions (November 1997) ("Coopers & Lybrand Hospitality Directions") estimates that the industry is expected to again achieve record profitability in 1997. Coopers & Lybrand Hospitality Directions indicates that average U.S. hotel occupancy reached 65.1% in 1996, its highest level in 13 years. U.S. hotel occupancy is expected to decline slightly in 1997 to 64.5% due to supply growth exceeding demand growth. High occupancy during 1992 to 1997 has provided hotel operators with the ability to support increases in ADR without affecting occupancy percentages. Sustained ADR growth has contributed to total lodging industry revenue growth which was 8.6% in 1996 and is expected to be 8.5% in 1997.

The following table reflects the percentage changes in REVPAR, ADR and occupancy for the twelve months ended October 31, 1996 and 1997, compared to the same periods in 1995 and 1996, respectively, for (i) the Hotels that were open for each of the periods presented, (ii) U.S. full service hotels and
(iii) all U.S. hotels.

	PERCENTAGE CHANGE VERSUS PRIOR PERIOD					
	REVPAR(1)		ADR		OCCUPANCY	
	1996	1997	1996	1997	1996	1997
Cavanaughs Hotels(2)....	8.3%	8.7%	9.3%	9.1%	(1.5)%	(1.6)%
U.S. Full Service Hotels(3).....	8.4%	7.8%	7.4%	7.8%	0.8 %	0.1 %
U.S. Hotels(3)(4).....	6.4%	5.4%	6.4%	6.4%	(0.1)%	(0.9)%

(1) Determined by dividing annual room revenue by annual available rooms.

(2) Occupancy as a percentage of available rooms declined slightly, primarily because of the addition of new rooms associated with the opening of Cavanaughs on Fifth Avenue, which management believes has not reached stabilized occupancy.

(3) Source: Smith Travel Research.

(4) Includes both full service and limited service hotels.

Lodging room demand has historically tracked the national economy. In 1997, the U.S. economy's ongoing expansion has been marked by low inflation and unemployment and, in the northwest states of Idaho, Oregon and Washington, employment and population growth has been above national averages. According to U.S. Bank's Economic Update (October 1997), for the twelve months ended July 1997 the metropolitan areas of Seattle, Washington and Portland, Oregon were the second and fourth fastest growing metropolitan economies in the nation, respectively. In addition, according to the 1998 U.S. Bank Regional Economic Review and Forecast, Washington is the fifth most rapidly growing state in the nation. The western region of the United States is expected to continue to outpace the nation in employment income and population growth through the year 2000, according to the Oregon Economic Review and Forecast (December 1997).

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HOTEL PROPERTIES

The Company's hotel portfolio currently contains 11 full service Hotels, with 2,369 guest rooms and approximately 120,000 square feet of meeting space, located in the Northwest. In addition, the Company has entered into purchase agreements to acquire two additional full service hotels. The following table sets forth certain information regarding the Company's hotel portfolio and hotels under contract.

						YEAR ENDED OCTOBER 31, 1997		
	LOCATION	YEAR BUILT/ ACQUIRED	YEAR RENOVATED	GUEST ROOMS	MEETING SPACE (SQ. FT.)	REVPAR	ADR	AVERAGE OCCUPANCY
HOTELS OWNED AS OF OCTOBER 31, 1997:								
Cavanaughs on Fifth Avenue	Seattle, WA	1996	1996	297	12,500	$ 73.55	$ 116.24	64.9%
Cavanaughs Inn at the Park	Spokane, WA	1983	1997	402	26,300	48.61	80.90	61.1
Cavanaughs River Inn	Spokane, WA	1976	1997	245	3,700	40.17	53.01	74.2
Cavanaughs Fourth Avenue	Spokane, WA	1991	1997	153	2,600	23.63	48.33	51.7
Cavanaughs at Yakima Center	Yakima, WA	1991	1997	155	11,000	37.13	55.98	63.3
Cavanaughs Gateway Hotel	Yakima, WA	1997(1)	1997	172	8,000	34.16	58.96	57.9
Cavanaughs at Columbia Center	Kennewick, WA	1978	1997	162	9,700	31.15	55.86	58.9
Cavanaughs at Kalispell Center	Kalispell, MT	1986	1997	132	10,500	36.89	59.30	63.2
Total/Weighted Average for Owned Hotels (2)(3)				1,718	84,300	$ 45.72	$ 73.43	63.5%
HOTELS ACQUIRED SINCE OCTOBER 31, 1997:								
Cavanaughs Ridpath Hotel	Spokane, WA	1998(4)	1996	342	16,000	$ 33.49	$ 58.43	57.3%
Cavanaughs on the Falls	Idaho Falls, ID	1998(5)	1994	142	8,800	34.49	57.38	60.1
Cavanaughs Templins Resort	Post Falls, ID	1998(6)	1996	167	11,000	36.45	62.65	58.2
HOTELS CURRENTLY UNDER CONTRACT:								
Cavanaughs Outlaw Hotel	Kalispell, MT	1998(7)	1995	220	11,000	$ 29.88	$ 68.88	43.4%
Cavanaughs Hillsboro Hotel	Portland, OR	1998(8)	1997	123	3,500	50.13	72.38	69.3
Total/Weighted Average for Hotels Acquired or Under Contract Since October 31, 1997				994	50,300	$ 35.40	$ 62.99	56.2%
Total/Weighted Average for All Hotels (2)(3)				2,712	134,600	$ 41.21	$ 68.94	59.8%

(1) Leased by the Company effective October 15, 1997. See "Business and Properties--Hotel Properties."

(2) Rooms which were under renovation were excluded from REVPAR and average occupancy percentage. Due to the short duration of renovation, in the opinion of management, excluding these rooms did not have a material impact on REVPAR and average occupancy percentage.

(3) The total/weighted average for owned Hotels includes REVPAR, ADR and average occupancy of Cavanaughs Gateway Hotel for the period from October 15, 1997 through October 31, 1997.

(4) Leased by the Company effective January 1, 1998. See "Business and Properties--Hotel Properties."

(5) Acquired by the Company on January 7, 1998.

(6) Acquired by the Company on February 2, 1998.

(7) The Company has entered into a purchase agreement dated November 19, 1997 to acquire this hotel, subject to the satisfaction of normal

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closing conditions, for a purchase price of $9.8 million within 60 days of the closing of the Offering. This hotel, which is currently known as the Outlaw Inn, will be re-branded as the "Cavanaughs Outlaw Hotel" upon acquisition.

(8) The Company has entered into a purchase agreement dated January 14, 1998 pursuant to which it intends to acquire this hotel, subject to the satisfaction of normal closing conditions, for a purchase price of $5.7 million on April 1, 1998. This hotel, currently known as the Hallmark Inn, will be re-branded as the "Cavanaughs Hillsboro Hotel" upon acquisition.

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STRUCTURE OF THE COMPANY

The Company is the sole general partner of the Operating Partnership and the Company, North River Drive Company, the Barbieri Family Foundation, Donald Barbieri, Thomas Barbieri and Richard Barbieri are currently the limited partners of the Operating Partnership. The Company will conduct substantially all of its business, and will hold substantially all of the Hotels and other assets, through the Operating Partnership. As sole general partner of the Operating Partnership, the Company has exclusive power to manage and conduct the operations of the Operating Partnership. Subject to certain holding period requirements, OP Units will be exchangeable, at the option of the holders thereof, for cash in an amount equal to the market value of the shares of Common Stock. The Company has the right, however, if OP Units are presented for exchange, to deliver to the holder of such OP Units, in lieu of cash, shares of Common Stock, on a one-for-one basis (subject to adjustment in the event of stock splits, dividends, combinations and reorganizations). As general partner of the Operating Partnership, whenever the Company shall issue shares of capital stock, such as in the Offering, the Company will contribute the net proceeds therefrom to the Operating Partnership and the Operating Partnership will issue to the Company an equivalent number of OP Units with rights corresponding to the shares of capital stock issued by the Company. See "Partnership Agreement of the Operating Partnership." In addition to the Operating Partnership, the Company holds a 50% general partner interest in Cowley Street Limited Partnership, a Washington limited partnership which owns Cavanaughs Fourth Avenue. Each of G&B Select-a-Seat, G&B Presents and G&B Real Estate Services are fictitious business names of the Company and operate within the Company's entertainment, management and services division which will continue to be operated by the Company following the Offering for the benefit of the Operating Partnership.

The following diagram depicts the ownership structure of the Company upon completion of the Offering:

[GRAPH APPEARS HERE]

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THE OFFERING

Common Stock Offered by the Company.....	5,175,000 shares
Common Stock Outstanding after the Offering.....	12,270,253 shares(1)

Use of Proceeds.....
The Company expects to use the net proceeds of the Offering to repay certain indebtedness, including indebtedness incurred with respect to certain acquisitions. See "Use of Proceeds."

Proposed NYSE symbol..... "CVH"

(1) Includes 7,084,253 restricted shares owned by David Barbieri, Donald Barbieri, Kathryn Barbieri, Mark Barbieri, Richard Barbieri, Stephen Barbieri, Thomas Barbieri, David Bell and certain family trusts (collectively, the "Barbieri Family") and an aggregate of 11,000 restricted shares to be issued to five of the Company's employees concurrently with the Offering. See "Management--Restricted Stock and Certain Stock Option Grants." Excludes 150,817 shares issuable upon exchange of currently outstanding OP Units, which units may not be exchanged by the holders thereof for one year from the date of this Prospectus. See "Partnership Agreement of the Operating Partnership." Excludes 1,489,000 shares reserved for issuance with respect to options or stock awards to be granted under the Company's 1998 Stock Incentive Plan (the "1998 Plan") and Employee Stock Purchase Plan (the "Employee Stock Purchase Plan" and together with the 1998 Plan, the "Plans"). See "Management."

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SUMMARY COMBINED FINANCIAL AND OTHER DATA

The following table sets forth summary combined financial data of the Company as of and for the five years ended October 31, 1997 and the two months ended December 31, 1996 and 1997. The summary combined statement of operations data for the fiscal years ended October 31, 1993 and 1994 and the two months ended December 31, 1996 and the summary combined balance sheet data as of October 31, 1993, 1994 and 1995 and December 31, 1996 are derived from the Company's unaudited financial statements and reflect all normal recurring adjustments, which in the opinion of management, are necessary for a fair presentation. The summary combined statement of operations data for the fiscal years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1997 and the summary combined balance sheet data as of October 31, 1996 and 1997 and December 31, 1997 are derived from the Company's audited financial statements included elsewhere in this Prospectus. The pro forma combined statement of operations data and balance sheet data as of and for the year ended October 31, 1997 are unaudited and are derived from the pro forma financial statements included elsewhere in this Prospectus as adjusted for the Offering.

The summary combined financial data set forth below should be read in conjunction with, and are qualified in their entirety by, the Historical Combined Financial Statements and related notes, Pro Forma Combined Financial Statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial information included elsewhere in this Prospectus.

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	FISCAL YEAR ENDED OCTOBER 31,(1)						TWO MONTHS ENDED DECEMBER 31,	
	1993	1994	1995	1996	1997	PRO FORMA 1997(2)	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND HOTEL STATISTICS)							
STATEMENTS OF OPERATIONS DATA:								
Revenues:								
Hotels and restaurants.....	$28,417	$30,573	$ 31,244	$ 35,205	$ 41,662	$ 67,001	$ 5,683	$ 6,829
Entertainment, management and services.....	4,468	3,205	3,092	3,168	3,842	3,842	483	840
Rental operations.....	4,572	4,987	6,027	6,790	6,539	6,539	1,191	1,169
Total revenues.....	37,457	38,765	40,363	45,163	52,043	77,382	7,357	8,838
Operating income(3)....	8,528	8,165	7,978	8,914	10,635	14,478	924	1,343
Interest expense.....	5,301	5,649	6,866	7,319	8,817	(6,050)	1,317	1,422
Income (loss) before taxes and extraordinary item(3).....	3,364	2,765	1,573	1,905	2,641	9,141	(274)	--0--
Income taxes.....	1,254	574	542	730	932	3,153	(104)	(6)
Extraordinary gain (loss) item(4).....	191	--	--	--	--	(541)	--	--
Net income (loss) (3)..	$ 2,301	$ 2,191	$ 1,041	$ 1,175	$ 1,709	$ 5,447	$ (170)	$ 6
Pro forma income per share before extraordinary item....	--	--	--	--	$ 0.24	$ 0.48	--	--
Pro forma extraordinary item per share.....	--	--	--	--	--	$ 0.04	--	--
Pro forma net income per share(5).....	--	--	--	--	$ 0.24	$ 0.44	--	--
Shares used in the pro forma per share calculation(5).....	--	--	--	--	7,072	12,270	--	--
Net loss per share--basic and diluted.....	--	--	--	--	--	--	--	--
Weighted average shares outstanding.....	--	--	--	--	--	--	--	7,072
BALANCE SHEET DATA:								
Total assets.....	$80,220	$86,924	$107,042	$120,087	$124,104	$157,914	$119,941	$125,117
Long-term debt and capital leases excluding current maturities.....	$57,100	$66,755	$ 77,636	$ 88,799	$ 96,026	$ 70,852	$ 88,769	$ 96,558
Stockholders' equity(6).....	$ 5,318	$ 5,055	$ 8,791	$ 9,613	$ 8,526	$ 69,801	$ 9,089	$ 8,532
OTHER DATA:								
EBITDA(3)(7).....	$11,469	$11,763	$ 11,845	$ 13,575	$ 16,174	$ 21,020	$ 1,788	$ 2,191
EBITDA as a percentage of revenues.....	30.6%	30.3%	29.4%	30.1%	31.1%	27.1%	24.3%	24.8%
Net cash provided by operating activities(8).....	--	--	3,586	5,200	6,610	6,610	287	1,094
Net cash used in investing activities(8).....	--	--	(24,428)	(13,184)	(6,268)	(6,268)	(1,523)	(3,294)
Net cash provided by (used in) financing activities(8).....	--	--	19,178	9,258	(1,102)	(1,102)	(261)	715
HOTEL STATISTICS:								
Hotels open (at end of period).....	6	6	6	7	8	13	7	8
Available rooms (at end of period).....	1,242	1,242	1,242	1,539	1,718	2,712	1,539	1,718
REVPAR(9)(10).....	$ 38.69	$ 38.70	$ 38.83	$ 42.04	$ 45.72	$ 41.21	$ 31.93	$ 36.11
ADR(11).....	$ 56.40	$ 60.27	$ 61.54	$ 67.29	$ 73.43	$ 68.94	$ 64.88	$ 71.22
Average occupancy percentage(10)(12)....	70.3%	[illegible]	65.5%	64.5%	63.5%	59.8%	50.7%	51.8%

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(1) The summary combined financial and other data has been presented as though
(i) the predecessor businesses of Cavanaughs Hospitality Corporation, Barbieri Investment Company, Lincoln Building Limited Partnership and their respective subsidiaries and partnerships which they controlled had been combined as of October 31, 1993, 1994, 1995, 1996 and 1997 and (ii) the spin-off of certain subsidiaries engaged in businesses not related to the core hospitality business of the Company had occurred as of October 31, 1993, 1994, 1995, 1996 and 1997.

(2) Pro forma results reflect the historical financial and other data as of October 31, 1997 after reflecting (i) the Merger which occurred in November 1997, (ii) the acquisitions which occurred or are probable of occurring as of February 27, 1998 as if they occurred on November 1, 1996 for purposes of the statement of income and as of October 31, 1997 for purposes of the balance sheet, and (iii) the Offering and the application of the net proceeds therefrom. See "Use of Proceeds" and "Capitalization."

(3) Operating income, income before income taxes and extraordinary item, net income and EBITDA reflect a nonrecurring charge of $422,000 related to final settlement of litigation in 1997.
(4) Extraordinary item in the 1997 pro forma presentation includes charges for the write-off of deferred loan fees and prepayment penalties, net of income taxes, related to long-term debt which is being repaid out of the proceeds of the Offering.
(5) Due to the Merger in November 1997, the historical earnings per share is not relevant or meaningful. Therefore, pro forma earnings per share for the year ended October 31, 1997 has been presented based upon the number of shares of Common Stock of the Company which were outstanding after the Merger.
(6) Changes in stockholders' equity between fiscal years reflect (i) net income, (ii) cash dividends and (iii) distributions to or contributions from shareholders for the activities related to the subsidiaries, investments or divisions which have been excluded from the combined financial statements. See Note 1 to the Historical Combined Financial Statements.

(7) EBITDA represents income before income taxes and extraordinary item, interest expense, depreciation, amortization and minority interests. EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles and such information should not be considered as an alternative to net income, cash flow from operations or any other measure of performance prescribed by generally accepted accounting principles. While not all companies calculate EBITDA in the same fashion and therefore EBITDA as presented may not be comparable to similarly titled measures of other companies, EBITDA is included herein because management believes that certain investors find it to be a useful tool for measuring the Company's ability to service debt.

(8) Cash flows from operating, investing and financing activities have not been provided for the years ended October 31, 1993 and 1994. Due to the mergers of the companies and partnerships described in Note 1 to the Historical Combined Financial Statements, in the opinion of management, the cost of preparing this information outweighs the benefit of providing the data.

(9) REVPAR represents the total revenues divided by total available rooms, net of rooms out of service due to significant renovations.

(10) Rooms which were under renovation were excluded from REVPAR and average occupancy percentage. Due to the short duration of renovation, in the opinion of management, excluding these rooms did not have a material impact on REVPAR and average occupancy percentage.

(11) ADR represents total room revenues divided by the total number of rooms occupied by hotel guests on a paid basis.

(12) Average occupancy percentage represents total rooms occupied divided by total available rooms. Total available rooms represents the number of rooms available multiplied by the number of days in the reported period.

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RISK FACTORS

An investment in the Common Stock of the Company involves various risks. Prospective investors should carefully consider the following risk factors in conjunction with other information contained in this Prospectus before making a decision to purchase Common Stock in the Offering.

Operating Risks in the Lodging Industry. The Company's business is subject to the operating risks inherent in the lodging industry. These risks include adverse changes in national or local economic conditions, overbuilding in the lodging industry or a reduction in demand for hotel rooms and related services in the Northwest generally and, in particular, the markets where the Hotels are concentrated, competition from other hotels, changes in travel patterns, extreme weather conditions, cancellation of, or changes in, events scheduled to occur in the Company's markets, changes in governmental regulations which influence or determine wages, prices or construction costs, changes in interest rates, the availability of financing for operating or capital needs and changes in real estate tax rates and other operating expenses. Further, the Hotels are located in the Northwest where a number of major industries, including agriculture, tourism, technology, timber and aerospace, are concentrated. These industries may be affected by changes in governmental regulations and economic conditions, such as the relative strength of national and local economies, the rate of national and local unemployment and the rate of inflation, all of which could materially affect the local economies in which these industries and the Company operate. There is no assurance that downturns or prolonged adverse conditions in these industries or in national or local economies will not have a material adverse impact on the Company's results of operations.

Competition in the Lodging Industry. The lodging industry is highly competitive. The Company competes with other national limited and full service hotel companies, as well as with various regional and local hotels. Many of the Company's competitors have a larger network of locations and greater financial resources than the Company. Competition in the United States lodging industry is based generally on brand name recognition, convenience of location, price, range of services and guest amenities offered, quality of customer service and overall product. Demographic or other changes in one or more of the Company's markets could impact the convenience or desirability of the sites of certain of the Hotels which would adversely affect the operations of those Hotels. Further, there can be no assurance that new or existing competitors will not offer significantly lower rates or greater convenience, services or amenities or significantly expand or improve facilities in a market in which the Hotels compete, thereby adversely affecting the Company's operations.

Geographic Concentration. Because all of the Hotels currently are located in the Northwest, the Company's results of operations and financial condition are dependent on the economy of the Northwest. To the extent that general economic or other relevant conditions in the Northwest decline and result in a decrease in consumer demand in this region, the Company's performance and results of operations will be adversely affected. In addition, the Company owns, or has under contract, multiple hotels in the cities of Spokane and Yakima, Washington and Kalispell, Montana. A downturn in general economic or other relevant conditions in these specific markets or in any other market in which the Company operates could adversely impact the Company's results of operations and financial condition.

Constraints on Growth Opportunities. The Company intends to continue to pursue an aggressive growth strategy for the foreseeable future. Since December 1996, the Company has acquired four Hotels and has entered into agreements to acquire two additional hotels. The Company's ability to successfully pursue new growth opportunities will depend on a number of factors, including, among others, the Company's ability to identify suitable hotels for acquisition or development, to finance acquisitions and renovations and to successfully integrate new hotels into its operations. There is no assurance that suitable hotels for acquisition or development will be available or, if available, will be on terms acceptable to the Company or that capital will be available on terms acceptable to the Company. While the Company believes that it will have sufficient capital following the Offering to fund its growth strategy in the near term, this belief is based on adequate cash being generated from operations and the availability of the Revolving Credit Facility. There is no assurance that the Company will generate adequate cash from operations or that the Company will ultimately be successful in obtaining the Revolving Credit Facility. Even if the Company generates anticipated cash from operations and obtains the

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Revolving Credit Facility, the Company may seek to obtain additional debt or equity financing, depending upon the amount of capital required to pursue future growth opportunities or address other liquidity needs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Integration of New Hotels. There is no assurance that the Company will be able to successfully integrate new hotels or new hotel products into its operations, that new hotels or new hotel products will achieve revenue and profitability levels comparable to the Hotels or that the combined business will be profitable. Newly acquired, developed or converted hotels typically begin with lower occupancy and room rates. Furthermore, the Company's expansion within its existing markets could adversely affect the financial performance of the Hotels in such markets or the Company's overall results of operations. Expansion into new markets may present operating and marketing challenges that are different from those currently encountered by the Company in its existing markets. There is no assurance that the Company will be able to anticipate all of the changing demands that expanding operations will impose on its management and management information and reservation systems, and the failure to adapt its systems and procedures could have a material adverse effect on the Company's business.

Competition for Growth Opportunities. The Company intends to pursue a full range of growth opportunities, including acquisitions and new construction. The Company competes for growth opportunities with national and regional hospitality companies, some of which have greater name recognition, marketing support, reservation system capacity and financial resources than the Company. The Company's ability to make acquisitions is dependent upon the Company's relationships with owners of existing hotels and certain major hotel investors. The Company's failure to compete successfully for acquisitions or to attract or maintain relationships with hotel owners and major hotel investors could adversely affect the Company's ability to expand its portfolio of hotels. The Company's inability to implement its external growth strategy would limit its ability to grow its revenue base.

Acquisition, Development and Redevelopment Risks. The Company intends to acquire additional hotels in the future. Acquisitions entail the risk that investments will fail to perform in accordance with the Company's expectations. The Company also intends to continue the redevelopment and re- branding of other acquired hotels into "Cavanaughs" hotels. In addition, the Company expects to develop new hotels in the future, depending on market conditions. Hotel redevelopment and new project development is subject to a number of risks, including, without limitation, risks of construction delays or cost overruns, risks that the hotels will not achieve anticipated performance levels and new project commencement risks such as receipt of zoning, occupancy and other required governmental permits and authorizations. These and other risks could result in the incurrence of substantial costs for a project that is never completed. There is no assurance that financing for these projects will be available or, if available, will be on terms acceptable to the Company. In addition, the renovation of the Hotels is subject to a number of risks, including, without limitation, construction delays or cost overruns due to various factors. Any unanticipated delays or expenses in connection with the renovation of the Hotels could have an adverse effect on the results of operations and financial condition of the Company.

Real Estate Ownership Risks. Upon closing of the Offering, the Company's portfolio will contain 15 properties, including the 11 Hotels, three office properties and one retail property. Accordingly, the Company is subject to varying degrees of risk generally related to owning real estate. These risks, many of which are beyond the control of the Company, include, among others, changes in national, regional and local economic conditions, local real estate market conditions, changes in interest rates, the availability, cost and terms of financing, lease obligations, the potential for uninsured casualty and other losses, the impact of present or future environmental legislation and compliance with environmental laws, and adverse changes in zoning laws and other regulations. In addition, real estate investments are relatively illiquid; therefore, the ability of the Company to vary its portfolio in response to changes in economic and other conditions may be limited.

Control By Principal Shareholders. Upon completion of the Offering, members of the Barbieri Family will beneficially own, in the aggregate, 57.7% of the outstanding shares of Common Stock. Donald Barbieri,

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Chairman, President and Chief Executive Officer of the Company, will have sole voting and investment power with respect to 21.5% of the outstanding shares of Common Stock. So long as the Barbieri Family owns a substantial portion of the outstanding Common Stock, it will have the ability to control the management and affairs of the Company and will have the power to approve or block most actions requiring the approval of the shareholders of the Company, including the sale of all the assets of the Company. See "Ownership of Common Stock."

Environmental Matters. The Company's operating costs may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of compliance with future legislation. Under current federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of contamination from hazardous or toxic substances, or the failure to remediate such contaminated property properly, may adversely affect the ability of the owner of the property to borrow using such property as collateral for a loan or to sell such property. Environmental laws also may impose restrictions on the manner in which a property may be used or transferred or in which businesses may be operated, and may impose remedial or compliance costs. The costs of defending against claims of liability or remediating contaminated property and the cost of complying with environmental laws could materially adversely affect the Company's results of operations and financial condition.

In connection with the Company's acquisition of a property, a Phase I environmental assessment is conducted by a qualified independent environmental engineer. Phase I environmental assessments have been performed on all of the Company's properties and it is expected that all future hotel acquisitions will be subject to a Phase I environmental assessment. A Phase I environmental assessment involves researching historical usages of a property, databases containing registered underground storage tanks and other matters, including an on-site inspection, to determine whether an environmental issue exists with respect to the property which needs to be addressed. If the results of a Phase I environmental assessment reveal potential issues, a Phase II environmental assessment, which may include soil testing, ground water monitoring or borings to locate underground storage tanks, may, depending upon the circumstances, be ordered for further evaluation.

A Phase I environmental assessment conducted with respect to the Kalispell Center Mall has revealed a potential environmental concern. Specifically, the report determined that underground storage tanks ("USTs") had been located on the site prior to both the acquisition of the land in 1984 and the construction of the mall in 1985, and due to lack of documentation regarding their removal, there exists a possibility that USTs may still exist on the site and that soils and/or groundwater below the site could have been contaminated due to leakage. While the Phase I assessment recommended further analysis, the Company has determined that such action is unwarranted at this time. The Company determined that further investigation was not warranted because the environmental survey revealed no evidence of any contamination, the inaccessibility of the land under the mall and its adjacent parking lots and the high probability that any existing USTs would have been located and removed during the extensive site excavation work which was performed for utilities and building foundations during the facility's construction in 1985. Based on the information provided by the Phase I environmental assessments, the Company is not aware of any environmental liability or compliance concern at the properties that the Company believes would have a material adverse effect on the Company's business, assets, results of operations or liquidity.

It is possible that Phase I environmental assessments will not reveal all environmental liabilities or compliance concerns or that there will be material environmental liabilities or compliance concerns of which the Company will not be aware. While the Company has not been notified by any governmental authority, and has no other knowledge, of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental substances in connection with any of its properties, no assurances can be given that (i) future laws, ordinances or regulations will not impose any material environmental liability or (ii) the current environmental condition of the Company's existing and future properties will not be affected by the condition of

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neighboring properties (such as the presence of leaking underground storage tanks) or by third parties (whether neighbors such as dry cleaners or others) unrelated to the Company.

Regulatory Risks. The lodging industry is subject to numerous federal, state and local government regulations, including building and zoning requirements. Also, the Company is subject to laws governing its relationship with employees, including minimum wage requirements, overtime, working conditions and work permit requirements. An increase in the minimum wage rate, employee benefit costs or other costs associated with employees, could adversely affect the Company. Under the Americans with Disabilities Act of 1990 (the "ADA"), all public accommodations are required to meet certain federal requirements related to access and use by disabled persons.

Although the Company believes it is in compliance with the ADA, there is no assurance that a material ADA claim will not be asserted against the Company.

Seasonal fluctuations in the Company's Operating Results. The lodging industry is seasonal in nature, with the months from May through October generally accounting for a greater portion of annual revenues than the months from November through April. For example, for the year ended December 31, 1997, the Company's revenues in the first through fourth quarters were 19.7%, 25.7%, 29.1% and 25.5%, respectively, of its total revenue for such year and the Company's net income (loss) for the first through fourth quarters was (17.4)%, 43.5%, 81.7% and (7.8)%, respectively, of its total net income for such year. Quarterly earnings also may be adversely affected by events beyond the Company's control such as extreme weather conditions, economic factors and other considerations affecting travel. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Seasonality."

Dependence on Senior Management. The Company will place substantial reliance on the lodging industry experience and the continued availability of its senior management led by Donald Barbieri, Chairman, President and Chief Executive Officer, Arthur Coffey, Executive Vice President and Chief Financial Officer, Richard Barbieri, Senior Vice President and General Counsel, Thomas Barbieri, Senior Vice President-Acquisitions and Commercial Operations and David Bell, Senior Vice President-Project Design, Development and Construction. The Company believes that its future success and its ability to manage future growth depend in large part upon the efforts of the senior management and on the Company's ability to attract and retain other highly qualified personnel. Competition for such personnel is intense, and there can be no assurance that the Company will be successful in attracting and retaining such personnel. The Company intends to enter into employment agreements with Donald Barbieri, Arthur Coffey, Richard Barbieri, Thomas Barbieri and David Bell for terms which expire on December 31, 1999. See "Management--Employment Agreements." The Company does not carry key man insurance on any of its senior management.

Rental Income Risks. The Company owns approximately 590,000 square feet of office and retail space in Spokane, Washington and Kalispell, Montana. The Company will be subject to the risk that upon expiration, leases may not be renewed, the space may not be relet or the terms of renewal or reletting (including the cost of required renovations) may be less favorable than current lease terms. There is no assurance that the Company will be able to locate tenants for rental spaces vacated in the future or receive satisfactory rents from tenants. Delays or difficulties in attracting tenants and costs incurred by the Company in preparing for tenants could reduce cash flow, decrease the value of a property or jeopardize the Company's ability to pay its expenses. Vacancies could subsequently result due to termination of a tenant's tenancy, the tenant's financial failure or a breach of the tenant's obligations.

Risks Associated with Termination of Management and Leasing Contracts. The Company expects to continue to manage and lease properties owned by third parties. For the year ended December 31, 1997, revenue from management and third-party leasing was $1.4 million and $0.3 million, respectively. Risks associated with these activities include the risk that the related contracts (which are typically cancelable upon 30-days' notice or upon certain events, including sale of the property) will be terminated by the property owner or will be lost in connection with a sale of such property, that contracts may not be renewed upon expiration or may not be renewed on terms consistent with current terms and that the rental revenues upon which management and leasing fees are based will decline as a result of general real estate market conditions or specific market factors affecting properties managed or leased by the Company, resulting in decreased management or leasing fee income.

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Risk Associated with Entertainment, Management and Services Division. The Company's entertainment services include computerized event ticketing and the presentation of touring Broadway shows. In addition, the Company attracts additional hotel guests through cross-selling the products of its entertainment, management and services division. This division is vulnerable to risks associated with changes in general regional and economic conditions, the potential for significant competition and a change in consumer trends, among others. In addition, there is no assurance that Broadway shows will continue to tour the Northwest or that such productions will use the Company as a promoter.

Certain Types of Losses May Exceed Insurance Coverage. The Company carries comprehensive liability, public area liability, fire, flood, boiler and machinery, extended coverage and rental loss insurance covering its properties. There are, however, certain types of losses that are not generally insured because it is not economically feasible to insure against such losses. Should an uninsured loss or a loss in excess of insured limits occur with respect to any particular property, the Company could lose its capital invested in the property, as well as the anticipated future revenue from the property and, in the case of debt which is with recourse to the Company, would remain obligated for any mortgage debt or other financial obligations related to the property. Although the Company believes that its properties are adequately insured, any such loss would adversely affect the Company. There is no assurance that material losses in excess of insurance proceeds will not occur in the future.

Risk of Debt Financing; No Limit on Indebtedness. As described under "Use of Proceeds," the Company will use $61.7 million of the net proceeds of the Offering to repay a portion of its outstanding indebtedness. After giving effect to such repayment and the acquisition of the five hotels acquired, or contracted for, by the Company since December 31, 1997, the Company's outstanding indebtedness will be approximately $73.1 million. Substantially all of the Company's outstanding indebtedness is secured by individual properties, including the Hotels. Borrowings under the Revolving Credit Facility, if obtained, will be used by the Company to repay existing indebtedness, to fund the acquisition of hotels, to fund renovations and capital improvements to hotels and for general working capital needs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." There is no assurance that the Company will ultimately enter into an agreement with U.S. Bank regarding the Revolving Credit Agreement. Failure to enter into the Revolving Credit Facility or to obtain other financing required to repay the Company's indebtedness could have a material adverse effect on the Company. At December 31, 1997, the Company's outstanding indebtedness had a weighted average annual interest rate of 8.6% and weighted average remaining maturity of eight years and eight months. At December 31, 1997, the Company's ratio of long-term debt (including capital lease obligations) to equity was 11.8 to 1. After giving effect to the acquisition of the five hotels acquired, or contracted for, by the Company and the application of net proceeds from the Offering, the Company's ratio of long-term debt (including capital lease obligations) to equity will be approximately 1.1 to 1 and the amount of cash required to service the Company's existing indebtedness during 1998 will be approximately $6.7 million.

Neither the Company's Amended and Restated Articles of Incorporation (the "Articles") nor its Amended and Restated By-Laws (the "By-Laws") limit the amount of indebtedness that the Company may incur. Subject to limitations in its debt instruments, including those expected to be included in the Revolving Credit Facility, the Company expects to incur additional debt in the future to finance acquisitions and renovations and for general corporate purposes. The Company's continuing indebtedness could increase its vulnerability to general economic and lodging industry conditions (including increases in interest rates) and could impair the Company's ability to obtain additional financing in the future and to take advantage of significant business opportunities that may arise. The Company's indebtedness is, and will likely continue to be, secured by mortgages on the Hotels. There is no assurance that the Company will be able to meet its debt service obligations and, to the extent that it cannot, the Company risks the loss of some or all of its assets, including the Hotels, to foreclosure. Adverse economic conditions could cause the terms on which borrowings become available to be unfavorable. In such circumstances, if the Company is in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in Hotels at times which may not permit realization of the maximum return on such investments.

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Upon completion of the Offering, most of the Company's outstanding indebtedness, including the Revolving Credit Facility, if obtained, will bear interest at a variable rate. Economic conditions could result in higher interest rates, which would increase debt service requirements on variable rate debt and could reduce the amount of cash available for various corporate purposes. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Immediate and Substantial Dilution. As set forth more fully under "Dilution," the pro forma net tangible book value per share of the Company after the Offering will be substantially less than the initial public offering price per share in the Offering. Accordingly, purchasers of the Common Stock offered hereby will experience an immediate and substantial dilution of $7.41 per share (based on an assumed initial public offering price of $13 per share) in the net tangible book value of the Common Stock. See "Dilution."

Absence of Public Market. Prior to the Offering, there has been no public market for the Common Stock. There is no assurance that an active public market will develop or continue after the Offering. The initial public offering price of the Common Stock was determined through negotiations between the Company and representatives of the Underwriters and there is no assurance that the Common Stock will trade at or in excess of the initial public offering price. See "Underwriting" for a discussion of the factors considered in determining the initial public offering price.

Price Volatility. The market price of the Common Stock could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that have often been unrelated or disproportionate to the operating performance of particular companies. These broad fluctuations may adversely affect the market price of the Common Stock.

Shares Available for Future Sale. Upon completion of the Offering, the Company will have 12,270,253 shares of Common Stock outstanding (13,046,503 shares if the Underwriters' over-allotment option is exercised in full). Of the shares outstanding after the Offering, 7,084,253 of such shares will be shares of "restricted" common stock as such term is defined under Rule 144 promulgated under the Securities Act of 1933, as amended (the "Securities Act"). In addition to shares of Common Stock sold by the Company in the Offering, the Company will issue an aggregate of 55,000 shares of "restricted" Common Stock over four years to certain members of management, of which 11,000 shares will be issued upon closing of the Offering. In addition, concurrently with the Offering, options to purchase up to 900,000 shares of Common Stock may be granted to certain officers, directors and employees of the Company at an exercise price equal to the initial public offering price. Sales of a substantial number of shares of Common Stock (including shares issued upon the exercise of stock options), or the perception that such sales could occur, could adversely affect prevailing market prices of the Common Stock. No prediction can be made about the effect that future sales of Common Stock will have on the market prices of shares.

No Dividends on Common Stock. The Company anticipates that for the foreseeable future, all earnings, if any, will be retained for the operation and expansion of its business and that it will not pay cash dividends on Common Stock. See "Dividend Policy."

Anti-Takeover Matters. The Articles and By-Laws contain provisions that may have the effect of delaying, deterring or preventing a takeover of the Company that shareholders purchasing shares in the Offering may consider to be in their best interest. The Articles and By-Laws provide for a classified board of directors serving staggered terms of three years, and advance notice requirements for shareholder proposals and director nominations. The Articles also grant the Board of Directors (the "Board") the authority to issue up to 5,000,000 shares of preferred stock, having such rights, preferences and privileges as designated by the Board without shareholder approval. In addition, Washington law contains certain provisions that may have the effect of delaying, deterring or preventing a takeover or change in control of the Company. Chapter 23B.19 of the Washington Act prohibits the Company, with certain exceptions, from engaging in certain significant business transactions with an "acquiring person" (defined as a person who acquires 10% or more of the Company's voting securities without the prior approval of the Board) for a period of five years after such acquisition. See "Description of Capital Stock."

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THE COMPANY

The Company, which was formerly known as Goodale & Barbieri Companies, has been a family-owned enterprise since it was founded in 1937 by Louis Barbieri and Frank Goodale. Between 1937 and 1976, the Company focused on third-party property management services and real estate development in Spokane, Washington. The Company's history of owning and operating hotels commenced in 1976 when it constructed the River Inn in Spokane. In 1980, the Company established its proprietary Cavanaughs brand name. After changing its name in October 1997 to Cavanaughs Hospitality Corporation, the Company merged with BIC effective November 1, 1997. In connection with its merger with BIC, the Company contributed certain assets not related to its core hospitality business, including, among other things, a long-term residence inn and a milk processing and distribution business, to a wholly-owned subsidiary and distributed the capital stock of such subsidiary, as well as the capital stock of another wholly-owned subsidiary owning recreational real estate in Priest Lake, Idaho and a retail sales operation, to the shareholders of the Company. Shortly thereafter, the Company contributed substantially all of its assets to the Operating Partnership in exchange for general and limited partner interests therein. The Company is the sole general partner of the Operating Partnership and owns a controlling 98.8% interest therein. All of the Hotels and the other assets of the Company are held by or for the benefit of, and substantially all of the Company's operations are conducted through, the Operating Partnership. As sole general partner of the Operating Partnership, the Company has exclusive power to manage and conduct the operations of the Operating Partnership. See "Partnership Agreement of the Operating Partnership." In addition to the Operating Partnership, the Company holds a 50% general partner interest in Cowley Street Limited Partnership, a Washington limited partnership which owns Cavanaughs Fourth Avenue.

The Company's principal executive offices are located at 201 W. North River Drive, Suite 100, Spokane, Washington 99201 and its telephone number is (509) 459-6100. The Company's website address is www.cavanaughs.com.

USE OF PROCEEDS

The net proceeds to the Company from the Offering, after giving effect to underwriting discounts and commissions and estimated expenses, are expected to be approximately $61.7 million (approximately $71.1 million if the Underwriters' over-allotment option is exercised in full). The Company expects to use the net proceeds from the Offering to repay approximately $61.7 million of indebtedness outstanding, of which $850,000 was incurred on January 7, 1998 in connection with the purchase of the Cavanaughs on the Falls hotel. Any remaining proceeds will be used by the Company for future investments in, or acquisitions of, hotel properties and for other general corporate purposes. An aggregate of approximately $1.5 million of the net proceeds of the Offering will be used by the Company to repay a note payable to Inland Northwest Corporation, an entity owned by certain members of the Barbieri Family, in the amount of $933,333 and an obligation owed to the Barbieri Family Foundation in the amount of $600,000. Pending such uses, the Company intends to invest the net proceeds in short-term investment grade, interest-bearing securities, certificates of deposit or guaranteed obligations of the United States of America. At December 31, 1997 the indebtedness to be repaid bore interest at fixed and variable rates, with a weighted average annual rate of 8.8% and a weighted average remaining maturity of six years and six months. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

DIVIDEND POLICY

The Company does not anticipate paying any cash dividends on the Common Stock in the foreseeable future. The Company intends to retain earnings to provide funds for the continued growth and development of its business. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." Any determination to pay cash dividends in the future will be at the discretion of the Board and will depend upon, among other things, the Company's results of operations, financial condition, contractual restrictions (including those expected to be set forth in the Revolving Credit Facility) and other factors deemed relevant by the Board.

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CAPITALIZATION

The following table sets forth the capitalization of the Company as of December 31, 1997 (i) on a combined historical basis and (ii) on a pro forma basis, giving effect to (a) the Offering and the application of the net proceeds therefrom and (b) the five hotels acquired, or contracted for, since December 31, 1997. The information set forth in the following table should be read in conjunction with the Historical Combined Financial Statements and related notes, Pro Forma Combined Financial Statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial information included elsewhere in this Prospectus.

	AS OF DECEMBER 31, 1997	
	HISTORICAL COMBINED	PRO FORMA
	(IN THOUSANDS)	
Debt, including current portion:		
Existing long-term debt	$ 98,009	$ 42,735
Existing capital lease obligations	2,641	2,641
Borrowings under Revolving Credit Facility(1)	--	27,696
Total debt	100,650	73,072
Stockholders' equity:		
Preferred Stock, $.01 par value, 5,000,000 authorized; no shares issued and outstanding	--	--
Common Stock, $.01 par value, 50,000,000 authorized; 7,095,253 shares issued and outstanding(2); 12,270,253 shares issued and outstanding as adjusted(2)	71	123
Partners' deficit	(879)	--
Additional paid-in capital	3,935	64,670
Retained earnings	5,405	4,956
Total stockholders' equity	8,532	69,749
Total capitalization	$ 109,182	$ 142,821

(1) The Company has obtained a commitment for the Revolving Credit Facility for up to $80.0 million. This Revolving Credit Facility is contingent upon the satisfaction of certain conditions, including the successful completion of the Offering. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity."

(2) Includes 7,084,253 restricted shares owned by the Barbieri Family and an aggregate of 11,000 restricted shares to be issued to five of the Company's employees concurrently with the Offering. Excludes 150,817 shares issuable upon exchange of currently outstanding OP Units, which units may not be exchanged for one year from the date of this Prospectus. See "Partnership Agreement of the Operating Partnership." Excludes 1,489,000 shares reserved for issuance with respect to options or stock awards to be granted under the Plans. See "Management."

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DILUTION

The net tangible book value of the Company at December 31, 1997 was approximately $6,746,000, or approximately $0.95 per share of Common Stock. Net tangible book value per share is equal to the Company's total tangible assets less its total liabilities divided by the number of outstanding shares of Common Stock. After giving pro forma effect to the sale by the Company of the 5,175,000 shares offered hereby (at an assumed initial public offering price of $13 per share) and the application of the net proceeds from the Offering, the pro forma net tangible book value per share of the Company at December 31, 1997 would have been approximately $68.4 million, or approximately $5.59 per share of Common Stock. This amount represents an immediate increase in the pro forma net tangible book value per share of $4.62 per share to the existing shareholders and an immediate dilution in pro forma net tangible book value per share to new investors of approximately $7.41 per share. The following table illustrates this per share dilution.

```
Assumed initial public offering price per share...............
$13.00
  Net tangible book value per share before the Offering....... $0.95
  Pro forma net tangible book value increase per share
   attributable to the Offering..............................  4.62
                                                              -----
Pro forma net tangible book value per share after the
 Offering.....................................................
5.59

------
Pro forma net tangible book value dilution per share to new
 investors....................................................        $
7.41

======
```

The following table sets forth: (i) the number of shares of Common Stock held by the existing shareholders and the number of shares of Common Stock purchased by new investors in this Offering, (ii) the net book value on a pro forma basis as of December 31, 1997 of the consideration received by the Company from the existing shareholders and (iii) the net tangible book value of the consideration received by the Company in this Offering (assuming the sale of 5,175,000 shares of Common Stock by the Company at an initial public offering price of $13.00 per share).

	SHARES ACQUIRED		TOTAL CONTRIBUTION		BOOK VALUE OF CONSIDERATION RECEIVED
	NUMBER(1)	PERCENT	AMOUNT	PERCENT	BY COMPANY PER SHARE
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Existing shareholders...	7,072	57.7%	$ 8,536	11.3%	$ 1.21
Common Stock purchased by new investors in the Offering.....	5,175	42.3	67,275	88.7	13.00
Total.....	12,247	100.0%	$75,811	100.0%	$ 6.19

(1) Includes 7,072,025 restricted shares owned by the Barbieri Family. Excludes 150,817 shares issuable upon exchange of currently outstanding OP Units, which OP Units cannot be exchanged for one year from the date of this Prospectus, and an aggregate of 11,000 restricted shares to be issued to five of the Company's employees concurrently with the Offering. See "Partnership Agreement of the Operating Partnership." Excludes 1,489,000 shares reserved for issuance with respect to options or stock awards to be granted under the Plans. See "Management."

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SELECTED COMBINED FINANCIAL AND OTHER DATA

The following table sets forth selected combined financial data of the Company as of and for the five years ended October 31, 1997 and the two months ended December 31, 1996 and 1997. The selected combined statement of operations data for the fiscal years ended October 31, 1993 and 1994 and the two months ended December 31, 1996 and the selected combined balance sheet data as of October 31, 1993, 1994 and 1995 and December 31, 1996 are derived from the Company's unaudited financial statements and reflect all normal recurring adjustments, which in the opinion of management, are necessary for a fair presentation. The selected combined statement of operations data for the fiscal years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1997 and the selected combined balance sheet data as of October 31, 1996 and 1997 and December 31, 1997 are derived from the Company's audited financial statements included elsewhere in this Prospectus. The pro forma combined statement of operations data and balance sheet data as of and for the year ended October 31, 1997 are unaudited and are derived from the pro forma financial statements included elsewhere in this Prospectus as adjusted for the Offering.

The selected combined financial data set forth below should be read in conjunction with, and are qualified in their entirety by, the Historical Combined Financial Statements and related notes, Pro Forma Combined Financial Statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial information included elsewhere in this Prospectus.

	FISCAL YEAR ENDED OCTOBER 31,(1)						TWO MONTHS ENDED DECEMBER 31,	
	1993	1994	1995	1996	1997	PRO FORMA 1997(2)	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND HOTEL STATISTICS)							
STATEMENTS OF OPERATIONS DATA:								
Revenues:								
Hotels and restaurants:								
Rooms	$16,276	$17,531	$17,587	$20,972	$25,147	$39,809	$2,998	$3,626
Food and beverage	11,469	12,027	12,397	12,141	13,926	23,547	2,271	2,756
Other	672	1,015	1,260	2,092	2,589	3,645	414	447
Total hotels and restaurants	28,417	30,573	31,244	35,205	41,662	67,001	5,683	6,829
Entertainment, management and services	4,468	3,205	3,092	3,168	3,842	3,842	483	840
Rental operations	4,572	4,987	6,027	6,790	6,539	6,539	1,191	1,169
Total revenues	37,457	38,765	40,363	45,163	52,043	77,382	7,357	8,838
OPERATING EXPENSES:								
Direct:								
Hotels and restaurants:								
Rooms	4,822	4,868	4,931	5,719	6,820	11,420	958	1,167
Food and beverage	9,193	9,657	10,034	10,181	11,483	19,312	1,822	2,208
Other	503	808	716	1,008	1,066	1,409	149	170
Total hotels and restaurants	14,518	15,333	15,681	16,908	19,369	32,141	2,929	3,545
Entertainment, management and services	2,310	1,519	1,802	2,204	2,052	2,052	397	602
Rental operations	364	783	1,026	1,464	1,506	1,506	243	303
Total direct operating expenses	17,192	17,635	18,509	20,576	22,927	35,699	3,569	4,450

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	FISCAL YEAR ENDED OCTOBER 31,(1)						TWO MONTHS ENDED DECEMBER 31,	
	1993	1994	1995	1996	1997	PRO FORMA 1997(2)	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND HOTEL STATISTICS)							
UNDISTRIBUTED OPERATING EXPENSES:								
Selling, general and administrative.....	4,909	3,966	5,426	6,461	8,188	12,244	1,161	1,225
Property operating costs(3).....	4,023	5,554	5,022	4,997	5,518	9,183	944	1,022
Depreciation and amortization.....	2,805	3,419	3,428	4,215	4,775	5,778	759	798
Total undistributed operating expenses.....	11,737	12,939	13,876	15,673	18,481	27,205	2,864	3,045
Total expenses.....	28,929	30,574	32,385	36,249	41,408	62,904	6,433	7,495
Operating income(3).....	8,528	8,165	7,978	8,914	10,635	14,501	924	1,343
Interest expense.....	5,301	5,649	6,866	7,319	8,817	6,050	1,317	1,422
Other.....	137	249	471	310	823	--	119	79
Income (loss) before income taxes and extraordinary item(3)..	3,364	2,765	1,583	1,905	2,641	9,141	(274)	--0--
Income taxes.....	1,254	574	542	730	932	3,153	(104)	(6)
Extraordinary gain (loss) item(4).....	191	--	--	--	--	(541)	--	--
Net income (loss)(3)....	$ 2,301	$ 2,191	$ 1,041	$ 1,175	$ 1,709	$5,447	$ (170)	$ 6
Pro forma income per share before extraordinary item.....	--	--	--	--	$ 0.24	$ 0.48	--	--
Pro forma extraordinary item per share.....	--	--	--	--	--	$ 0.04	--	--
Pro forma net income per share(5).....	--	--	--	--	$ 0.24	$ 0.44	--	--
Shares used in the pro forma per share calculation(5).....	--	--	--	--	7,072	12,270	--	--
Dividends per share(6)..	--	--	--	--	--	--	--	--
Net loss per share-basic and diluted.....	--	--	--	--	--	--	--	--
Weighted average shares outstanding.....	--	--	--	--	--	--	--	7,072
BALANCE SHEET DATA:								
Total assets.....	$80,220	$86,924	$107,042	$120,087	$124,104	$157,914	$119,941	$125,117
Current maturities of long-term debt and capital leases.....	2,652	2,458	10,306	10,509	4,784	1,305	10,753	4,092
Long-term debt and capital leases excluding current maturities.....	57,100	66,755	77,636	88,799	96,026	70,852	88,769	96,558
Stockholders' equity(7).....	5,318	5,055	8,791	9,613	8,526	69,743	9,089	8,532
OTHER DATA:								
EBITDA(3)(8).....	$11,469	$11,763	$ 11,045	$ 13,575	$ 16,174	$ 21,020	$ 1,788	$ 2,191
EBITDA as a percentage of revenues.....	30.6%	30.3%	29.4%	30.1%	31.1%	27.1%	24.3%	24.8%
Net cash provided by operating activities(9).....	--	--	3,586	5,200	6,610	6,610	287	1,094
Net cash used in investing activities(9).....	--	--	(24,428)	(13,184)	(6,268)	(6,268)	(1,523)	(3,294)
Net cash provided by (used in) financing activities(9).....	--	--	19,178	9,258	(1,102)	(1,102)	(261)	715
HOTEL STATISTICS:								
Hotels open (at end of period).....	6	6	6	7	8	13	7	8
Available rooms (at end of period).....	1,242	1,242	1,242	1,539	1,718	2,712	1,539	1,718
REVPAR(10)(11).....	$ 38.69	$ 38.70	$ 38.83	$ 42.04	$ 45.72	$ 41.21	$ 31.93	$ 36.11
ADR(12).....	$ 56.40	$ 60.27	$ 61.54	$ 67.29	$ 73.43	$ 68.94	$ 64.88	$ 71.22
Average occupancy percentage(11)(13)...	70.3%	65.2%	65.5%	64.5%	63.5%	59.8%	50.7%	51.8%

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(1) The summary combined financial and other data has been presented as though (i) the predecessor businesses of Cavanaughs Hospitality Corporation, Barbieri Investment Company, Lincoln Building Limited Partnership and their respective subsidiaries and partnerships which they controlled had been combined as of October 31, 1993, 1994, 1995, 1996 and 1997 and (ii) the spin-off of certain subsidiaries engaged in businesses not related to the core hospitality business of the Company had occurred as of October 31, 1993, 1994, 1995, 1996 and 1997.

(2) Pro forma results reflect the historical financial and other data as of October 31, 1997 after reflecting (i) the Merger which occurred in November 1997, (ii) the acquisitions which occurred or are probable of occurring as of February 27, 1998 as if they occurred on November 1, 1996 for purposes of the statement of income and as of October 31, 1997 for purposes of the balance sheet, and (iii) the Offering and the application of the net proceeds therefrom. See "Use of Proceeds" and "Capitalization."

(3) Property operating costs, operating income, income before income taxes and extraordinary item, net income and EBITDA reflect a nonrecurring charge of $422,000 related to final settlement of litigation in 1997.

(4) Extraordinary item included in the 1997 pro forma presentation includes charges for the write-off of deferred loan fees and prepayment penalties, net of income taxes related to long-term debt, which is being repaid out of the proceeds of the Offering.
(5) Due to the Merger, which was consummated in November 1997, the historical earnings per share is not relevant or meaningful. Therefore, pro forma earnings per share for the year ended October 31, 1997 has been presented based upon the number of shares of Common Stock of the Company which were outstanding after the Merger.
(6) Due to the Merger in November 1997, historical dividends per share is not relevant or meaningful and therefore is not presented. Dividends historically have been paid to the stockholders of Cavanaughs Hospitality Corporation and Barbieri Investment Companies. See Combined Statement of Changes in Stockholders' Equity in the historical financial statements included elsewhere herein.
(7) Changes in stockholders' equity between fiscal years reflect (i) net income, (ii) cash dividends and (iii) distributions to or contributions from shareholders for the activities related to the subsidiaries, investments or divisions which have been excluded from the combined financial statements. See Note 1 to the Historical Combined Financial Statements.

(8) EBITDA represents income before income taxes and extraordinary item, interest expense, depreciation, amortization and minority interests. EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles and such information should not be considered as an alternative to net income, cash flow from operations or any other measure of performance prescribed by generally accepted accounting principles. While not all companies calculate EBITDA in the same fashion and therefore EBITDA as presented may not be comparable to similarly titled measures of other companies, EBITDA is included herein because management believes that certain investors find it to be a useful tool for measuring the Company's ability to service debt.

(9) Cash flow from operating, investing and financing activities has not been provided for the years ended October 31, 1993 and 1994. Due to the mergers of the companies and partnerships described in Note 1 to the Historical Combined Financial Statements, in the opinion of management, the cost of preparing this information outweighs the benefit of providing the data.

(10) REVPAR represents the total revenues divided by total available rooms, net of rooms out of service due to significant renovations.

(11) Rooms which were under renovation were excluded from REVPAR and average occupancy percentage. Due to the short duration of renovation, in the opinion of management, excluding these rooms did not have a material impact on REVPAR and average occupancy percentage.

(12) ADR represents total room revenues divided by the total number of rooms occupied by hotel guests on a paid basis.

(13) Average occupancy percentage represents total rooms occupied divided by total available rooms. Total available rooms represents the number of rooms available multiplied by the number of days in the reported period.

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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 fiscal years ended October 31, 1995, 1996, and 1997 and the two months ended December 31, 1996 and 1997. The following should be read in conjunction with the Historical Combined Financial Statements and the notes thereto and the "Selected Combined Financial and Other Data" included elsewhere in this Prospectus. 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 this Prospectus.

The financial statements of the Company, which have been audited by Coopers & Lybrand L.L.P., have been presented as though the predecessor businesses of Cavanaughs Hospitality Corporation (formerly known as Goodale and Barbieri Companies), Barbieri Investment Company and their respective subsidiaries and partnerships which they controlled had been combined as of October 31, 1995, 1996 and 1997. These companies were merged on November 1, 1997. The audited financial statements also include Lincoln Building Limited Partnership, a partnership previously controlled by the Barbieri Family. See Note 1 to the Combined Financial Statements. Income or losses attributed to the minority interests of partners in Lincoln Building Limited Partnership and Cowley Street Limited Partnership are reported as minority interest in partnerships. The Company has changed its fiscal year end from October 31 to December 31, which change shall take effect with the fiscal year beginning on January 1, 1998.

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 80.0% of total revenue in 1997 and increased at a compound annual rate of 15.5% from $31.2 million in 1995 to $41.7 million in 1997. This increase was primarily the result of the addition of Cavanaughs on Fifth Avenue and an increase in REVPAR from $38.83 in 1995 to $45.72 in 1997. 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 1997, entertainment, management and services accounted for 7.4% of total revenues and rental operations accounted for 12.6% of total revenues. These two divisions are expected to represent a smaller percent of total revenues in the future as the Company continues to pursue its hotel growth strategy.

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.

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

	FISCAL YEAR ENDED OCTOBER 31,			TWO MONTHS ENDED DECEMBER 31,	
	1995	1996	1997	1996	1997
Revenues:					
Hotels and restaurants.....	77.4%	78.0%	80.0%	77.2%	77.3%
Entertainment, management and services....	7.7	7.0	7.4	6.6	9.5
Rental operations.....	14.9	15.0	12.6	16.2	13.2
Total revenues.....	100.0%	100.0%	100.0%	100.0%	100.0%
Direct operating expenses.....	45.9%	45.6%	44.0%	48.5%	50.4%
Undistributed operating expenses:					
Selling, general and administrative.....	13.4	14.3	15.7	15.8	13.9
Property operating costs.....	12.5	11.1	10.6	12.8	11.6
Depreciation and amortization.....	8.5	9.3	9.2	10.3	9.0
Total undistributed operating expenses:	34.4	34.7	35.5	38.9	34.5
Operating income.....	19.8	19.7	20.4	12.6	15.2
Interest expense (net)..	17.0	16.2	16.9	17.9	16.1
Income (loss) before income taxes.....	3.9	4.2	5.1	(3.7)	--
Income tax provision (benefit).....	1.3	1.6	1.8	(1.4)	(0.1)
Net income (loss).....	2.6%	2.6%	3.3%	(2.3)%	0.1%
REVPAR.....	$ 38.83	$ 42.04	$ 45.72	$ 31.93	$ 36.11
ADR.....	$ 61.54	$ 67.29	$ 73.43	$ 64.88	$ 71.22
Occupancy.....	65.5%	64.5%	63.5%	50.7%	51.8%

RESULTS OF OPERATIONS

COMPARISON OF TWO MONTHS ENDED DECEMBER 31, 1997 TO TWO MONTHS ENDED DECEMBER 31, 1996

Total revenues increased $1.5 million, or 20.1%, from $7.4 million in the last two months of 1996 to $8.8 million in the comparable period of 1997. This increase is attributed primarily to revenue generated from increases in total rooms occupied, ADR and REVPAR, and the addition of Cavanaughs Gateway Hotel in Yakima, Washington.

Total hotel and restaurant revenues increased $1.1 million, or 20.2%, from $5.7 million in the last two months of 1996 to $6.8 million in the comparable period of 1997. ADR increased $6.34, or 9.8%, from $64.88 in the last two months of 1996 to $71.22 in the comparable period of 1997. Available room nights increased 7.0% in the last two months of 1997. REVPAR increased $4.18, or 13.1% from $31.93 in the last two months of 1996 to $36.11 in the comparable period of 1997. The Company's hotel and restaurant revenues increased primarily due to an

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increase in its ADR and total rooms occupied. In addition, Cavanaughs Gateway Hotel was acquired in October 1997. November and December of 1997 were the first two full months of operation for this 172-room property which also contributed to this increase in revenues.

Entertainment, management and services revenues increased $0.4 million, or 74.0%, from $0.5 million in the last two months of 1996 to $0.8 million in the comparable period of 1997. Entertainment revenue increased due to the greater number of Company-presented shows and attendance at such shows. Management and services revenue increased from the addition of new third-party management contracts.

Rental income remained relatively stable at $1.2 million in the last two months of 1996 and the comparable period of 1997.

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Direct operating expenses increased $0.9 million, or 24.7%, from $3.6 million in the last two months of 1996 to $4.5 million in the comparable period of 1997, primarily due to the increase in the number of hotel guests served and the Broadway shows presented by the Company. This represents an increase in direct operating expenses as a percentage of total revenues from 48.5% in the last two months of 1996 to 50.4% in the comparable period of 1997 which is primarily attributable to the higher variable costs associated with the Broadway shows.

Total undistributed operating expenses increased $0.2 million, or 6.3%, from $2.9 million in the last two months of 1996 to $3.0 million in the comparable period of 1997. Total undistributed operating expenses include selling, general and administrative expenses, which increased 5.5% from the last two months of 1996 to the comparable period of 1997, and depreciation and amortization, which increased 5.1%. Total undistributed operating expenses as a percentage of total revenues decreased 4.4% from 38.9% in the last two months of 1996 to 34.5% in the comparable period of 1997. The decrease in undistributed operating expenses as a percentage of total revenues is primarily attributed to the Company's ability to increase REVPAR of the Hotels while effectively controlling its selling, general and administrative expenses.

Operating income increased $0.4 million, or 45.3%, from $0.9 million in the last two months of 1996 to $1.3 million in the comparable period of 1997. As a percentage of total revenues, operating income increased from 12.6% in the last two months of 1996 to 15.2% in the comparable period of 1997. This increase is due primarily to an increase in REVPAR.

Interest expense increased $0.1 million, or 8.0%, from $1.3 million in the last two months of 1996 to $1.4 million in the comparable period of 1997. This increase is primarily related to the incurrence of additional debt used for completion of the conversion of Cavanaughs on Fifth Avenue and other corporate purposes.

The income tax benefit changed as a result of the change in the pre-tax loss. The effective income tax rate for both years was 34%.

The Company incurred a net loss of $170,000 in the last two months of 1996 compared to a net income of $6,000 in the comparable period of 1997.

COMPARISON OF YEAR ENDED OCTOBER 31, 1997 TO YEAR ENDED OCTOBER 31, 1996

Total revenues increased $6.9 million, or 15.2%, from $45.2 million in 1996 to $52.0 million in 1997. This increase is attributed primarily to revenue generated from increases in total rooms occupied and REVPAR and the addition of Cavanaughs on Fifth Avenue in Seattle, Washington.

Total hotel and restaurant revenues increased $6.5 million, or 18.3%, from $35.2 million in 1996 to $41.7 million in 1997. ADR increased $6.14, or 9.1%, from $67.29 in 1996 to $73.43 in 1997. Available room nights increased 10.3% in 1997, REVPAR increased $3.68, or 8.7%, from $42.04 in 1996 to $45.72 in 1997. Cavanaughs on Fifth Avenue opened in May 1996; therefore, 1997 was the first full fiscal year of operation for this 297-room property which contributed, in part, to this increase in revenues.

Entertainment, management and services revenues increased $0.7 million, or 21.3%, from $3.2 million in 1996 to $3.8 million in 1997. Entertainment revenue increased from the addition of new third-party management contracts.

Rental income decreased $0.3 million, or 3.7%, from $6.8 million in 1996 to $6.5 million in 1997 primarily as a result of the Company's need to occupy additional space in the CHC Building, its corporate headquarters, which had previously been rented to third parties, and the receipt of a one-time settlement for a lease termination which occurred in 1996.

Direct operating expenses increased $2.4 million, or 11.4%, from $20.6 million in 1996 to $22.9 million in 1997, primarily due to the increase in the number of hotel guests served. This represents a decline in direct

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operating expenses as a percentage of total revenues from 45.6% in 1996 to 44.0% in 1997. The improvement in direct operating expense percentages is attributed to the increase in REVPAR while the Company was able to effectively control expenses and gain volume efficiencies.

Total undistributed operating expenses increased $2.8 million, or 17.9%, from $15.7 million in 1996 to $18.5 million in 1997. Total undistributed operating expenses include selling, general and administrative expenses, which increased 26.7% from $6.5 million in 1996 to $8.2 million in 1997, and depreciation and amortization, which increased 13.3% from $4.2 million in 1996 to $4.8 million in 1997. Total undistributed operating expenses as a percentage of total revenues increased 0.8% from 34.7% in 1996 to 35.5% in 1997. The increase in undistributed operating expenses as a percentage of total revenues is primarily attributed to the addition of Cavanaughs on Fifth Avenue (which management believes had not attained stabilized occupancy) and the additional administrative expenses related to preparing the Company for future growth and the Offering.

Operating income increased $1.7 million, or 19.3%, from $8.9 million in 1996 to $10.6 million in 1997. As a percentage of total revenues, operating income increased from 19.7% in 1996 to 20.4 % in 1997. This increase is due primarily to an increase in REVPAR, the addition of Cavanaughs on Fifth Avenue and improvements in the hotel departmental margins.

Interest expense increased $1.5 million, or 20.5%, from $7.3 million in 1996 to $8.8 million in 1997. This increase is primarily related to the incurrence of additional debt used for funding the acquisition and conversion of Cavanaughs on Fifth Avenue and other corporate purposes. Interest expense is initially anticipated to decline as a result of the application of the net proceeds of the Offering to repay certain indebtedness, but is expected to increase in the future due to the funding of hotel acquisitions with additional debt.

Income tax provision increased 27.7%, from $0.7 million in 1996 to $0.9 million in 1997, due to the increase in income before taxes. The effective income tax rate for both years was 34%.

Net income increased $0.5 million, or 45.4%, from $1.2 million in 1996 to $1.7 million in 1997.

COMPARISON OF YEAR ENDED OCTOBER 31, 1996 TO YEAR ENDED OCTOBER 31, 1995

Total revenues increased $4.8 million, or 11.9%, from $40.4 million in 1995 to $45.2 million in 1996. The increase is attributed primarily to the addition of Cavanaughs on Fifth Avenue which opened in May 1996 and additional rental income from increased occupancy in the rental properties.

Total hotel and restaurant revenues increased $4.0 million, or 12.7%, from $31.2 million in 1995 to $35.2 million in 1996. ADR increased 9.3% from $61.54 in 1995 to $67.29 in 1996. Available room nights increased 10.1% in 1996. The increase is primarily attributed to the addition of Cavanaughs on Fifth Avenue.

Entertainment, management and services revenues increased 2.5% from $3.1 million in 1995 to $3.2 million in 1996.

Rental income increased $0.8 million, or 12.7%, from $6.0 million in 1995 to $6.8 million in 1996. The increase is primarily attributed to increased occupancy and lease payments for the Company's office buildings.

Direct operating expenses increased $2.1 million, or 11.2%, from $18.5 million in 1995 to $20.6 million in 1996. Direct operating expenses as a percentage of total revenues decreased from 45.9% in 1995 to 45.6% in 1996. This improvement is attributed primarily to the increase in REVPAR while controlling expenses.

Total undistributed operating expenses increased $1.8 million, or 12.9%, from $13.9 million in 1995 to $15.7 million in 1996. Total undistributed operating expenses include selling, general and administrative expenses, which increased 19.1% from $5.4 million in 1995 to $6.5 million in 1996, and depreciation and amortization, which increased 23.0% from $3.4 million in 1995 to $4.2 million in 1996. Total undistributed operating expenses as a percentage of total revenues increased from 34.4% in 1995 to 34.7% in 1996. Increased

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expenses are attributed primarily to the addition of Cavanaughs on Fifth Avenue which management believes has not attained stabilized occupancy.

Operating income increased $0.9 million, or 11.7%, from $8.0 million in 1995 to $8.9 million in 1996. This increase was primarily caused by an increase in hotel guests served and an increase in REVPAR coupled with the controlling operating expenses.

Interest expense increased $0.5 million, or 6.6%, from $6.9 million in 1995 to $7.3 million in 1996 primarily as a result of the additional indebtedness incurred by the Company in connection with the acquisition and conversion of Cavanaughs on Fifth Avenue.

Income tax provision increased 34.7%, from $0.5 million in 1995 to $0.7 million in 1996 due to the increase in income before taxes. The effective income tax rate for both years was 34%.

Net income increased $0.1 million, or 12.9%, from $1.0 million in 1995 to $1.2 million in 1996.

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 $3.0 million working capital credit facility. Cash generated by operations in excess of operating expenses is used for capital expenditures and to reduce amounts outstanding under the working capital 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.

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 the borrowing of 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. The Company intends to repay approximately $61.7 million of its outstanding indebtedness with the estimated net proceeds of the Offering. On a pro forma basis as of December 31, 1997, after giving effect to the Offering, the application of the net proceeds thereof and the acquisition of the five hotels acquired, or contracted for, since December 31, 1997, total outstanding indebtedness decreased from approximately $100.7 million to approximately $73.1 million. See "Use of Proceeds" and "Capitalization."

At December 31, 1997, the Company had $5.0 million in cash and cash equivalents. The Company has made extensive capital expenditures over the last three years, investing $24.1 million, $13.5 million and $6.2 million in owned and joint venture properties in 1995, 1996 and 1997, respectively. 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 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 1998 are expected to be approximately $3.0 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 received a commitment from U.S. Bank to provide the Revolving Credit Facility. The commitment letter, which contains a number of conditions to the initial funding by the lender, provides that the amount available thereunder will be

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the lesser of $80.0 million or the gross proceeds (including the gross proceeds if the Underwriters' over-allotment option is exercised) of the Offering. During the 12 months following the Offering, the Company will have approximately $50.0 million available to be drawn under the Revolving Credit Facility, which amount may be increased to the full amount available thereunder with the lender's consent, at an interest rate of 185 basis points over LIBOR and declining to 165 basis points after six months if the Company maintains certain EBITDA to debt ratios. 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 165 to 210 basis points, depending on the ratio of EBITDA to total funded debt. The Revolving Credit Facility has covenants that allow for the Company to draw funds based on the trailing 12 months performance on a pro forma basis for both acquired and owned properties. The Revolving Credit Facility allows the Company to choose which properties are part of the collateral base and, therefore, gives the Company the ability to utilize other long-term credit facilities that may be more favorable to the Company. Funds from the Revolving Credit Facility may be used for acquisitions, renovations, construction and general corporate purposes. The Company believes the structure and availability of funds under the Revolving Credit Facility will be sufficient to meet the Company's long-term growth plans.

The Revolving Credit Facility will contain various representations, warranties, covenants and events of default deemed appropriate for financing of a similar size and nature. Covenants and provisions in the definitive agreements governing the Revolving Credit Facility will include, among other things, limitations on: (i) substantive changes in the Company's current business activities, (ii) liquidation, dissolution, mergers, consolidations, dispositions of material property or assets and acquisitions of property or assets of others, (iii) the creation or existence of 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 will 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.

As of December 31, 1997, the Company had debt and capital leases outstanding of $100.7 million consisting of primarily variable and fixed rate debt secured by individual properties. The Company had a working capital credit facility of $3.0 million with $1.1 million drawn as of December 31, 1997.

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 the remaining proceeds from the Offering, will be adequate to fund the Company's growth strategy in the near term. Thereafter, the Company expects that future capital needs, including 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 of the Hotels, demand is higher in the late spring through and early fall (May through October) than during the balance of the year. For example, for the year ended December 31, 1997, the Company's revenues in the first through fourth quarters were 19.7%, 25.7%, 29.1% and 25.5%, respectively, of its total revenue for such year and the Company's net income (loss) for the first through fourth quarters was (17.4)%, 43.5%, 81.7% and (7.8)%, respectively, of its total net income for such 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 income during the periods under review.

YEAR 2000

The Company does not believe that the costs of converting its computer systems to address the advent of the year 2000 will be material.

NEW ACCOUNTING PRONOUNCEMENTS

In February 1997, Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," was issued. SFAS No. 128 establishes standards for computing and presenting earnings per share ("EPS") and simplifies the existing standards. This standard replaces the presentation of primary EPS with a presentation of basic EPS. It also requires the dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. SFAS No. 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods, and requires restatement of all prior-period EPS data presented. The adoption of SFAS No. 128 did not have a material effect on the presentation of the Company's EPS.

In June 1997, SFAS No. 130, "Reporting Comprehensive Income," was issued. This statement requires that comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This statement does not require a specific format for the financial statement, but requires that an enterprise display net income as a component of comprehensive income in the financial statement. Comprehensive income is defined as the change in equity of a business enterprise arising from non-owner sources. The classifications of comprehensive income under current accounting standards include foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. This statement is effective for fiscal years beginning after December 15, 1997. Management does not believe that the implementation of SFAS No. 130 will have a material impact on the presentation of its combined financial statements.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments for an Enterprise and Related Information." This statement will change the way public companies report information about segments of their business in their annual financial statements and requires them to report segment information in their quarterly reports issued to shareholders. It also requires entity-wide disclosures about the products and services an entity provides, and its major customers. The statement is effective for fiscal years beginning after December 15, 1997. Management of the Company does not believe that the implementation of SFAS No. 131 will have a material impact on the combined financial statements.

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BUSINESS AND PROPERTIES

GENERAL

Cavanaughs Hospitality Corporation is a hotel operating company that owns, operates, acquires, develops, renovates and repositions full service hotels in the Northwest under its proprietary brand name, "Cavanaughs(TM)". The Company's hotel portfolio contains 11 full service Hotels, with 2,369 guest rooms and approximately 120,000 square feet of meeting space, located in Seattle, Spokane, Yakima and Kennewick, Washington; Idaho Falls and Post Falls, Idaho; and Kalispell, Montana. The Company plans to pursue additional growth opportunities by continuing to acquire and develop full service hotels in the Northwest. The Company has entered into purchase agreements to acquire two additional full service hotels, containing 343 guest rooms and approximately 14,500 square feet of meeting space, located in Kalispell, Montana and Portland, Oregon for an aggregate purchase price of approximately $15.5 million. Substantially all of the Company's assets, including the Hotels, are owned by the Operating Partnership, the day to day operations of which are managed by the Company in its capacity as sole general partner. With more than 20 years of experience in the lodging industry, management believes the Company enjoys an excellent reputation in, and its Cavanaughs brand name is well recognized throughout, the Northwest. The Company also provides entertainment services, including event ticketing and theatrical presentations and other special events, property management services for third parties and owns and manages retail and office properties.

The Company is seeking to become the dominant full service hotel company in the Northwest by providing customers with access to a Cavanaughs brand hotel in multiple locations throughout the region. As a result of consolidation among hotel chains, the Company believes there is an absence of a dominant Northwest based, regionally focused hotel company. The Company's growth strategy focuses on: (i) the acquisition and re-branding of full service hotels with the Cavanaughs name, (ii) the acquisition, conversion and redevelopment of non-hotel properties into Cavanaughs brand hotels, (iii) the construction of new Cavanaughs hotels and (iv) the expansion of existing Cavanaughs Hotels.

The Company's operating strategy is designed to enhance its revenue and operating margins by increasing REVPAR, ADR, occupancy and operating efficiencies at the Hotels. This strategy includes: (i) building brand name recognition by maintaining its strategic focus on the Northwest; (ii) promoting a coordinated marketing program utilizing corporate level sales and marketing departments in conjunction with local hotel-based sales and marketing personnel; (iii) controlling operating expenses and achieving cost reductions through operating efficiencies and economies of scale; (iv) enhancing guest satisfaction and loyalty by providing high quality service;
(v) utilizing the Company's yield management and proprietary management information systems to enable the general managers of each Hotel to optimize REVPAR, ADR, occupancy and net income; (vi) maintaining a consistent level of quality at the Hotels through its maintenance and capital expenditure programs; (vii) emphasizing the quality of the Company's food and beverage services to attract convention, group and special event business and to create local awareness of the Hotels; (viii) providing valuable guest benefit programs that promote customer loyalty, such as frequent flier mileage and repeat guest programs; and (ix) attracting and retaining qualified employees by providing on-going training and stock incentive programs at all levels of employment to enhance productivity and align the efforts of employees with the Company's objectives. For the fiscal year ended October 31, 1997, the Company's revenues were $52.0 million, operating income was $10.7 million, net income was $1.8 million, REVPAR was $45.72 and ADR was $73.43. On a pro forma basis, giving effect to the three Hotels acquired since October 31, 1997, the two hotels under contract to be acquired and the Offering, for the year ended October 31, 1997, the Company's revenues were $77.4 million, operating income was $14.5 million, net income was $5.5 million, REVPAR was $41.21 and ADR was $68.94.

In addition to the Hotels, the Company operates two other divisions: (i) entertainment, management and services and (ii) rental operations. The entertainment, management and services division includes computerized event ticketing through G&B Select-a-Seat, which was founded in 1987 and distributed in excess of 2.0 million

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tickets in 1997, and the presentation of shows and special events through G&B Presents, which was also founded in 1987 and has presented over 79 Broadway theatrical presentations and special events in the last ten years. These services generate income from ticket sales and handling fees as well as additional room occupancy at the Hotels. The entertainment, management and services division is supported by the same Toll-Free Call Center used for hotel reservations. The Company's rental operations division includes ownership of three office properties and one retail property containing in excess of 590,000 square feet of leasable space, the majority of which are located near the Hotels, and third-party management of more than 3.1 million square feet of retail and office properties and approximately 2,200 residential units throughout the Northwest.

INDUSTRY OVERVIEW

The domestic lodging industry completed its third year of record profitability in 1996, during which time it produced record income of $12.5 billion. Coopers & Lybrand Hospitality Directions estimates that the industry is expected to again achieve record profitability in 1997. Coopers & Lybrand Hospitality Directions indicates that average U.S. hotel occupancy reached 65.1% in 1996, its highest level in 13 years. U.S. hotel occupancy is expected to decline slightly in 1997 to 64.5% due to supply growth exceeding demand growth. High occupancy during 1992 to 1997 has provided hotel operators with the ability to support increases in ADR without affecting occupancy percentages. Sustained ADR growth has contributed to total lodging industry revenue growth which was 8.6% in 1996 and is expected to be 8.5% in 1997.

The following table reflects the percentage changes in REVPAR, ADR and occupancy for the twelve months ended October 31, 1996 and 1997, compared to the same periods in 1995 and 1996, respectively, for (i) the Hotels that were open for each of the periods presented, (ii) U.S. full service hotels and
(iii) all U.S. hotels.

	PERCENTAGE CHANGE VERSUS PRIOR PERIOD					
	REVPAR(1)		ADR		OCCUPANCY	
	1996	1997	1996	1997	1996	1997
Cavanaughs Hotels(2)....	8.3%	8.7%	9.3%	9.1%	(1.5)%	(1.6)%
U.S. Full Service Hotels(3).....	8.4%	7.8%	7.4%	7.8%	0.8 %	0.1 %
U.S. Hotels(3)(4).....	6.4%	5.4%	6.4%	6.4%	(0.1)%	(0.9)%

(/1/)Determined by dividing annual room revenue by annual available rooms.

(/2/Occupancy)as a percentage of available rooms declined slightly, primarily because of the addition of new rooms associated with the opening of Cavanaughs on Fifth Avenue, which management believes has not reached stabilized occupancy.

(/3/Source:)Smith Travel Research.

(/4/)Includes both full service and limited service hotels.

Lodging room demand has historically tracked the national economy. In 1997, the U.S. economy's ongoing expansion has been marked by low inflation and unemployment and, in the northwest states of Idaho, Oregon and Washington, employment and population growth has been above national averages. According to U.S. Bank's Economic Update (October 1997), for the twelve months ended July 1997 the metropolitan areas of Seattle, Washington and Portland, Oregon were the second and fourth fastest growing metropolitan economies in the nation, respectively. In addition, according to the 1998 US Bank Regional Economic Review and Forecast, Washington is the fifth most rapidly growing state in the nation. The western region of the United States is expected to continue to outpace the nation in employment income and population growth through the year 2000, according to the Oregon Economic Review and Forecast (December 1997).

GROWTH STRATEGY

The Company is presently seeking growth opportunities in markets located throughout the Northwest. The Company will consider the following factors in evaluating acquisitions, conversions and redevelopments, construction of new hotels and expansion of existing hotels: (i) the location of the property,
(ii) the construction quality, condition and design of the property, (iii) the current and projected REVPAR, ADR and occupancy of

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the property and the anticipated ability of the Company to increase REVPAR, ADR and occupancy through management of the property by the Company and (iv) the potential for economic growth in the communities in which the hotels are located. The Company expects that future acquisitions will be based on these factors or such other similar factors or criteria as are established from time to time by the Board. The Company has successfully utilized each of these strategies and, since December 1996, has increased its room count from 1,546 to 2,712.

Following the Offering, the Company expects to have improved access to equity and debt financing sources with which to implement its growth strategy. The Company has received a commitment from U.S. Bank which has agreed to provide, upon consummation of the Offering, the Revolving Credit Facility in an amount up to $80.0 million which will be used by the Company to finance property acquisitions, development and capital improvements and for general corporate purposes. As an alternative to debt financing, the Company may issue shares of Common Stock or OP Units as consideration in future acquisitions. The issuance of OP Units in exchange for hotels may allow the current owners of such hotels to achieve certain tax advantages when selling such hotels to the Company.

Summarized below are the key elements of the Company's growth strategy:

Acquisition. The Company is presently seeking to acquire full service hotels in locations where the Company currently operates properties, as well as in new markets where the Company believes the potential exists to acquire hotel properties suitable for conversion to a Cavanaughs brand hotel. Acquisitions are contemplated by the Company when the cost of acquiring an existing hotel property is less than replacement cost or where construction and development opportunities no longer exist in a target market. The Company generally targets for acquisition hotels with certain physical characteristics that guests associate with a Cavanaughs brand hotel, including full service hotels with interior hallways, conference and banquet facilities, restaurants, lounges, recreational amenities and on- site parking. The Company generally focuses on acquiring hotels containing 150 to 400 rooms. The Company re-brands an acquired hotel as soon as practicable after acquisition with the installation of "Cavanaughs" signage and amenities. In addition, as part of its repositioning process, a dedicated management team is made responsible for integrating the acquired hotel into the Company's reservations, information, accounting, budgeting and management systems and, if necessary, upgrading and renovating the hotel.

The Company utilizes senior management's knowledge of the Northwest and long-standing relationships with the other hotel owners and operators to identify potential acquisitions. These relationships have enabled the Company to acquire certain of the Hotels before they became generally available for purchase on the open market. Since December 1996, the Company has acquired four Hotels (Cavanaughs Gateway Hotel, Cavanaughs Ridpath Hotel, Cavanaughs on the Falls and Cavanaughs Templin's Resort), containing 823 guest rooms and approximately 43,800 square feet of meeting space. The total purchase and option price of these Hotels was approximately $31.1 million (including a $6.3 million option purchase price payable with respect to Cavanaughs Gateway Hotel which the Company is not required to pay until 2003). This total purchase and option price is comprised of a combination of cash and assumed indebtedness and, in the case of Cavanaughs Ridpath Hotel, a combination of cash and OP Units. In addition, the Company has entered into purchase agreements to acquire two hotels (Cavanaughs Outlaw Hotel and Cavanaughs Hillsboro Hotel) containing 343 guest rooms and approximately 14,500 square feet of meeting space. The total purchase price for these hotels is approximately $15.5 million.

Conversion. Based on management's experience in developing hotel, retail and office properties, the Company believes that it has the ability to convert non-hotel properties, such as office buildings, into full service hotels. In completing the conversion process, the Company uses an in-house design and development staff, combined with third-party architectural and construction expertise. The Company believes that this in-house capability allows certain conversion opportunities to be economically feasible for the Company and at a cost advantage in comparison to its competitors. The Company intends to target conversion opportunities in markets that do not have hotel properties suitable for acquisition or where

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acquisition and conversion of a non-hotel property offers significant cost saving advantages as compared to new construction.

The Company recently completed the conversion of a non-hotel property into the Cavanaughs on Fifth Avenue, a full service hotel located in Seattle's central business and retail district. Prior to its conversion to a Cavanaughs brand hotel, the property was used by U.S. Bank of Washington as its regional headquarters. The Company acquired the property in June 1995 for approximately $18.3 million and in less than eleven months completed the design, zoning, permitting and construction required to convert the building into a 297-room, full service Cavanaughs brand hotel, containing two restaurants and 12,500 square feet of banquet and meeting space. The total conversion cost, including acquisition costs, was approximately $36.8 million. The Hotel, which opened in May 1996, achieved average REVPAR of $73.55, ADR of $116.24 and occupancy of 64.9% during the Company's fiscal year ended October 31, 1997. The Company believes the Hotel has not yet reached stabilized operating performance.

Construction. The Company intends to construct new hotels when it believes room demand and local ADR will support the cost of new construction, a well positioned building site is available and no viable acquisition or conversion opportunities exist.

Expansion. As part of its growth strategy, the Company seeks to acquire hotel properties with sufficient excess land to allow for potential future expansion. The Company's current hotel portfolio includes seven Hotels which the Company believes can be expanded to include additional hotel rooms and meeting space although there is no assurance that such expansion will be accomplished. The Company's expansion criteria focus on the demand for additional rooms in a given area, the costs related to such expansion and the potential return on investment to the Company. Through the use of its in-house development staff, in most cases, an expansion is completed within one year from the beginning of construction, with little or no disruption of existing hotel operations. Expansion of an existing hotel allows the Company to obtain economies of scale in operating its hotels and increase operating margins because it can leverage existing staff resources, common areas, restaurants and meeting facilities and guest amenities, such as pools and fitness facilities.

OPERATING STRATEGY

The Company's operating strategy focuses on increasing REVPAR, ADR and occupancy and improving operating efficiencies at the Hotels. Summarized below are the key elements of the Company's operating strategy:

Utilization of Proprietary Cavanaughs(TM) Brand. The Company is focused on enhancing its Cavanaughs brand name, which is synonymous with quality and value throughout the Northwest, thereby earning the loyalty and repeat patronage of business and leisure travelers. By owning its own proprietary brand, the Company both retains control over the Hotels and avoids certain operating or marketing restrictions that a competitor might face being affiliated with a third-party brand or franchise. The Company believes that the Cavanaughs brand name provides it with a competitive advantage in its operating profitability over competitors that do not own a hotel brand and are required to pay third-party franchise fees which typically can range from 6% to 10% of revenue. As a result of owning its own Cavanaughs brand name, the Company has the flexibility to freely market as well as cross- sell hotel rooms with any of its other marketing efforts or promotions, such as ticketing events or promotional campaigns. These cross- marketing efforts also serve to strengthen the Cavanaughs brand name. The Company will use the Cavanaughs brand name on its newly acquired, converted and developed hotels in order to maximize the long-term value of each of its hotels.

Sales and Marketing. The Company develops sales and marketing programs that target key segments of the hotel user market, including convention, corporate, government, tour and travel, team, education, promotion, leisure, transient and contract. Members of the Company's centrally located sales and marketing

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department are assigned to each market segment in which the Company operates and are responsible for communicating with hotel personnel in those markets regarding the specific hotel needs of such hotel's guests. In addition, each Hotel has (or shares with an adjacent Cavanaugh's Hotel) sales and banquet and catering personnel responsible for promoting that property as well as personnel responsible for the creation of promotional packages designed to attract individual guests. As a result of the corporate level and hotel level marketing efforts, the Company believes that it is able to more effectively meet customers' needs and enhance loyalty. The Company also expects that its corporate level marketing program will allow it to more easily direct those customers to other Cavanaughs brand Hotels located throughout the Northwest as their hospitality needs require.

Operating Efficiencies. As a result of owning and operating a portfolio of hotels, the Company is able to achieve operating efficiencies and economies of scale. By operating more than one hotel in a specific market, the Company believes that it can better manage its occupancy levels, match customer needs with a greater variety of price-points, locations and amenities and achieve economies of scale. For example, during periods when one of the Hotels is fully booked, customers can be accommodated at one of the Company's other Hotels, capturing what would otherwise be lost occupancy. Additionally, the Company is able to reduce costs through the allocation of fixed costs over a greater number of rooms. Regional management staff oversees the operations of all Hotels and certain departments, such as accounting and sales, and operates in these regions with reduced independent staffs through shared accounting and sales personnel with the Company's corporate headquarters. The Company utilizes centralized control for the purchase of property, casualty and liability insurance policies, telephone and cable contracts as well as other goods and services.

Control Over Hotel Operations. The Company believes that it is able to effectively manage the relationship between occupancy and ADR of the Hotels through the delegation of authority to the general manager of each Hotel. The Company continuously invests in the development of its yield management and proprietary information reporting systems that enable general managers to analyze daily Hotel performance statistics and to use this information to adjust pricing, staffing and customer mix in an effort to maximize their Hotel's REVPAR. In addition, management believes that the use of centralized systems and regional support services allow general managers to control costs, allocate resources efficiently and maintain consistently high product quality and services.

Policy of Reinvestment. It is the Company's policy to continuously reinvest capital in the Hotels in order to maintain their quality. The Company allocates 4.0% of each Hotel's prior year's gross revenues for reinvestment in the Hotels. During 1997, the Company reinvested approximately $5.0 million for renovation of rooms and related Hotel facilities. The Company's reinvestment program is designed to maintain attractive accommodations, common areas, update restaurants, lounges and meeting and banquet space and to modernize equipment. The Company believes that its reinvestment program helps to enhance the Company's competitive position and the value of the Hotels.

Emphasis on Food and Beverage Services. The Company emphasizes its food and beverage operations (restaurant and lounge, room service, banquet facilities and catering) in an effort to strengthen its group and convention business as well as to establish a positive reputation among its local clientele. The restaurant and catering business serves to establish each Hotel's reputation and name recognition in their respective markets. In order to ensure consistency of food and beverage service throughout the Hotels, a new menu and customer marketing program, Northwest Signatures, has been introduced to all of the Hotels.

Guest Benefit Programs. The Company has established several incentive programs to encourage and reward repeat visits by guests at the Hotels. The incentive programs include: (i) Cavanaughs Constant Traveler and Cavanaughs Gold Club, a corporate rate and amenity program, (ii) Cavanaughs Cash, a frequent use program and (iii) participation in Alaska Airlines/Horizon Air Mileage Plan, a frequent flyer program. The Company uses the information gained through guest participation in its incentive programs to design direct mailing and other promotional programs to attract repeat use of the Hotels.

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Maintaining a Unique Management Culture. The Company has developed a team of managers which has the expertise, authority and incentive to execute a plan for each Hotel that is designed to increase operating profitability. Members of the Company's senior management team have been with the Company on average for more than 17 years. The Company's management encourages employee loyalty and longevity through a number of employee programs that enhance productivity and align employees' interests with those of the shareholders. Significant programs include (i) employee stock option and stock purchase plans which are available to all hourly and salaried employees through payroll deduction and 401(k) programs, (ii) employee bonus plans that target, where possible, all management level employees to have a significant portion of their annual compensation from profits generated through their departments thereby encouraging significant business decision making among all levels of employees and (iii) continuing education programs that encourage expanded learning with Company sponsored tuition programs tied to length of service. In addition, the Company sponsors a not-for-profit day-care program at the Company's headquarters.

SALES AND MARKETING

The Company's hotel sales and marketing approach includes the following components:

Centralized Sales Management. In order to serve customers' lodging needs, the Company's sales department is centrally organized according to expertise and relationships in each of the following market segments:
corporate, convention, government, tour and travel, education, team, transient, contract, and promotion/leisure. The sales department works with each Hotel to ensure that sufficient hotel product is available to accommodate each group, guest or event in the particular Hotel which best serves the lodging needs of such group, guest or event. In addition, each Hotel has (or shares with adjacent Cavanaughs Hotels) sales and banquet and catering personnel promoting that Hotel to ensure that such Hotel's local individual and corporate customers are served. The Company's sales and marketing department includes personnel located at its headquarters as well as sales and marketing personnel located at each of the Hotels. Sales and marketing personnel residing at the Company's headquarters are in charge of major national and regional accounts and promotional campaigns. The Company utilizes media in the Northwest including television, radio, newspaper, in- flight magazines, business publications, and billboards, to market the Hotels.

Attention to Customer Service. The Company places significant value on meeting the changing needs of its customers by employing state-of-the-art technology to track customer preferences and actively measuring guest satisfaction through surveys which enables it to reinvest in those services and amenities which are most appreciated.

In-House Advertising Services. The Company believes that its in-house advertising and promotional departments allows it to take advantage of hotel room sales opportunities by generating promotional campaigns more quickly than its competitors. Through its internal advertising agency, the Company can purchase media at lower all-inclusive costs than its competitors who must out-source these functions.

Reservation Systems. The Company's Toll-Free Call Center is designed to provide integrated hotel, entertainment information and reservation services. The Toll-Free Call Center has the capacity to accommodate 48 simultaneous calls and provides access to standardized reservation systems utilized by travel agents worldwide to book hotel rooms. The Toll-Free Call Center is open 24 hours per day, seven days per week. The Toll-Free Call Center also maintains a database of information on over 200,000 repeat customers. Both hotel reservations and event ticketing requests can also be made through the Company's website address: www.cavanaughs.com.

Promotional Programs. The Company utilizes its own and affiliated incentive programs to attract additional customers. The Company's Cavanaughs Cash program enables participants to enjoy guest room savings by accumulating Cavanaughs Cash coupons. In addition, the Company participates in the Alaska Airlines/Horizon Air Mileage Plan Program. Alaska Airlines/Horizon Air is the dominant air service provider in the northwest United States, serving approximately 77 airports in the United States and 13 additional airports in Canada, Mexico and Russia. During 1996, Alaska Airlines/Horizon Air carried 11.8 million passengers. Guests of the Hotels who pay qualifying rates earn mileage credits for each stay, redeemable for air travel and other airline benefits. The Company and Alaska Airlines/Horizon Air have committed to jointly market property-specific programs that benefit the customers of both companies.

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HOTEL PROPERTIES

The Company's hotel portfolio currently contains 11 full service Hotels, with 2,369 guest rooms and approximately 120,000 square feet of meeting space, located in the Northwest. In addition, the Company has entered into purchase agreements to acquire two additional full service hotels. The following table sets forth certain information regarding the Company's hotel portfolio and hotels under contract.

	LOCATION	YEAR BUILT/ ACQUIRED	YEAR RENOVATED	GUEST ROOMS	MEETING SPACE (SQ. FT.)	YEAR ENDED OCTOBER 31, 1997 REVPAR	ADR	AVERAGE OCCUPANCY
HOTELS OWNED AS OF OCTOBER 31, 1997:								
Cavanaughs on Fifth Avenue.....	Seattle, WA	1996	1996	297	12,500	$ 73.55	$ 116.24	64.9%
Cavanaughs Inn at the Park.....	Spokane, WA	1983	1997	402	26,300	48.61	80.90	61.1
Cavanaughs River Inn....	Spokane, WA	1976	1997	245	3,700	40.17	53.01	74.2
Cavanaughs Fourth Avenue.....	Spokane, WA	1991	1997	153	2,600	23.63	48.33	51.7
Cavanaughs at Yakima Center.....	Yakima, WA	1991	1997	155	11,000	37.13	55.98	63.3
Cavanaughs Gateway Hotel.....	Yakima, WA	1997(1)	1997	172	8,000	34.16	58.96	57.9
Cavanaughs at Columbia Center.....	Kennewick, WA	1978	1997	162	9,700	31.15	55.86	58.9
Cavanaughs at Kalispell Center.....	Kalispell, MT	1986	1997	132	10,500	36.89	59.30	63.2
Total/Weighted Average for Owned Hotels(2)(3).....				1,718	84,300	$ 45.72	$ 73.43	63.5%
HOTELS ACQUIRED SINCE OCTOBER 31, 1997:								
Cavanaughs Ridpath Hotel.....	Spokane, WA	1998(4)	1996	342	16,000	$ 33.49	$ 58.43	57.3%
Cavanaughs on the Falls.....	Idaho Falls, ID	1998(5)	1994	142	8,800	34.49	57.38	60.1
Cavanaughs Templins Resort.....	Post Falls, ID	1998(6)	1996	167	11,000	36.45	62.65	58.2
HOTELS CURRENTLY UNDER CONTRACT:								
Cavanaughs Outlaw Hotel.....	Kalispell, MT	1998(7)	1995	220	11,000	$ 29.88	$ 68.88	43.4%
Cavanaughs Hillsboro Hotel.....	Portland, OR	1998(8)	1997	123	3,500	50.13	72.38	69.3
Total/Weighted Average for Hotels Acquired or Under Contract Since October 31, 1997.....				994	50,300	$ 35.40	$ 62.99	56.2%
Total/Weighted Average for All Hotels (2)(3).....				2,712	134,600	$ 41.21	$ 68.94	59.8%

(1) Leased by the Company effective October 15, 1997. See "--Hotel Properties."

(2) Rooms which were under renovation were excluded from REVPAR and average occupancy percentage. Due to the short duration of renovation, in the opinion of management, excluding these rooms did not have a material impact on REVPAR and average occupancy percentage.

(3) The total/weighted average for owned Hotels includes REVPAR, ADR and average occupancy of Cavanaughs Gateway Hotel for the period from October 15, 1997 through October 31, 1997.

(4) Leased by the Company effective January 1, 1998. See "--Hotel Properties."

(5) Acquired by the Company on January 7, 1998.

(6) Acquired by the Company on February 2, 1998.

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(7) The Company has entered into a purchase agreement dated November 19, 1997 to acquire this hotel, subject to the satisfaction of normal closing conditions, for a purchase price of $9.8 million within 60 days of the closing of the Offering. This hotel, which is currently known as the Outlaw Inn, will be re-branded as the "Cavanaughs Outlaw Hotel" upon acquisition.

(8) The Company has entered into a purchase agreement to acquire this hotel, subject to the satisfaction of normal closing conditions, for a purchase price of $5.7 million. This hotel, currently known as the Hallmark Inn, will be re-branded as the "Cavanaughs Hillsboro Hotel" upon acquisition.

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Cavanaughs on Fifth Avenue--Seattle, Washington. Formerly the regional headquarters for U.S. Bank of Washington, the 20-story property was acquired by the Company in June 1995 and, in eleven months, converted into a 297-room, full service hotel which opened in May 1996. The Hotel is located in the central business district of Seattle, and is two blocks from the Washington State Convention Center. Amenities include two restaurants, a lounge, business center, fitness center and 12,500 square feet of meeting and banquet space which can be divided into six separate meeting rooms. The Hotel also includes 14,300 square feet of retail space and 25,000 square feet of office space. The retail and office space is 100% leased.

Cavanaughs Inn at the Park--Spokane, Washington. Developed by the Company in 1983 and expanded in 1986 and 1993, the property is a 402-room, full service hotel located along the banks of the Spokane River in Spokane, Washington, the cultural, entertainment and sports center for the region. The Hotel is adjacent to the 100 acre Riverfront Park, near the 80,000 square foot Spokane Convention Center and 2,600-seat Opera House and is two blocks from the central business district and one block from the 12,000-seat Spokane Arena. The Hotel is comprised of three guest room wings: the five story Main Wing containing 181 rooms, the seven story Executive Wing containing 85 rooms, and the 12-story Tower Wing containing 136 rooms. Amenities include two restaurants, two lounges, two outdoor pools, one indoor lap pool, fitness center, sauna, two whirlpools, and gift shop. The Hotel, which is the largest hotel conference facility in the region, offers approximately 26,300 square feet of meeting and banquet space which can be divided into separate meeting rooms. The property contains approximately 2.1 acres of excess land which could be reallocated for parking and enable the Company to develop an estimated 336 additional guest rooms on its primary site in the future, if market conditions warrant.

Cavanaughs River Inn--Spokane, Washington. Developed by the Company in 1976, the property is a two-story, 245-room, full-service hotel located on the banks of the Spokane River along the 40 mile long Centennial Trail pedestrian walk. Amenities include two outdoor pools, tennis court, sauna and whirlpool, gift shop, and a 2,800 square foot ballroom divisible into two meeting rooms. The Hotel also has two additional meeting rooms totaling 900 square feet. The property contains approximately 0.5 acre of excess land upon which, if some of the Hotel's parking requirements were allocated to a parking lot controlled by Cavanaughs Inn at the Park, an estimated 168 additional guest rooms in a high- rise tower may be built in the future, if market conditions warrant.

Cavanaughs Fourth Avenue--Spokane, Washington. Acquired by the Company in 1991 and re-branded as a Cavanaughs hotel, the property is a six story, 153- room full service hotel located in the center of Spokane's medical community, adjacent to four hospitals, numerous public and private clinics and rehabilitation centers. Amenities include a restaurant and lounge, an outdoor pool and 2,600 square feet of meeting and banquet space divisible into four meeting rooms. This Hotel is owned by a limited partnership of which the Company is a 50% owner and general partner and an unaffiliated person is the sole limited partner.

Cavanaughs Ridpath Hotel--Spokane, Washington. Acquired by the Company in January 1998 and re-branded as a Cavanaughs hotel, the property is a 13-story, 342-room, full service hotel located in the Spokane central business district and is four blocks from the Spokane Convention Center and Opera House. Amenities include two restaurants, two lounges, an outdoor pool, fitness center and approximately 12,700 square feet of retail space which is leased to seven tenants. As of January 1998, the retail space was 80% leased. The Hotel offers approximately 16,000 square feet of meeting and banquet space divisible into 14 meeting rooms. The Hotel is held by the Company pursuant to a lease which expires in November 1999, and provides the Company with a purchase option, and the lessor with a put option, exercisable during the term, to acquire the Hotel from the lessor for an amount ranging from $11.5 million to $12.5 million, depending on the date of exercise.

Cavanaughs at Yakima Center--Yakima, Washington. Acquired by the Company in 1991 and re-branded as a Cavanaughs hotel, the property is a two-story, 155- room, full service hotel located in the center of Yakima's central business district and is attached to the Yakima Convention Center by a covered walkway. Yakima is located in the center of the state of Washington and has a diverse agricultural, industrial and manufacturing base. The Hotel is comprised of four buildings: the two-story Corporate Building, the two-story Garden Building, the two-story free standing Townhouse Building and the two-story, free standing Main Building. Amenities include a restaurant, lounge, two outdoor pools, and business center. The Hotel offers approximately 11,000 square feet

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of meeting and banquet space which can be divided into nine separate meeting rooms and is often used for convention center overflow. The property contains approximately 0.3 acres of excess land that could be used to facilitate the addition of an estimated 80 guest rooms, if market conditions warrant.

Cavanaughs Gateway Hotel--Yakima, Washington. Acquired by the Company in October 1997 and re-branded as a Cavanaughs hotel, the property is a three- story, 172-room full service hotel located adjacent to the Yakima Convention Center and across the street from the Company's Cavanaughs at Yakima Center Hotel. Amenities include a restaurant, lounge, outdoor pool and jacuzzi. The property offers approximately 8,000 square feet of meeting space which is divisible into ten meeting rooms and is often used for convention center overflow. The Hotel is held by the Company pursuant to a lease which expires in October 2012, subject to the Company's right to extend the term of the lease for two additional five-year periods, and provides the Company with a purchase option, exercisable in 2003, to acquire the Hotel from the lessor for $6.3 million.

Cavanaughs at Columbia Center--Kennewick, Washington. Developed by the Company in 1978, the property is a two-story, 162-room full service hotel located across the street from the five anchor, 90-store Columbia Center Mall and a 6,000 seat arena. Amenities include a restaurant, lounge, outdoor pool and gift shop. The Hotel offers 9,700 square feet of meeting and banquet space which is divisible into nine meeting rooms. The property contains approximately 4.0 acres of excess land upon which an estimated 144 additional guest rooms in a three-story structure, together with an estimated 50,000 square feet of retail facilities, may be built in the future, if market conditions warrant.

Cavanaughs on the Falls--Idaho Falls, Idaho. Acquired by the Company in January 1998 and re-branded as a Cavanaughs hotel, the property is an eight- story, 142-room full service hotel located in downtown Idaho Falls overlooking the falls on the Snake River. Amenities include a restaurant, lounge, an outdoor pool, sauna, spa and fitness center. The Hotel offers 8,800 square feet of meeting and banquet space which is divisible into eight meeting rooms. The property underwent major renovations in 1993 and 1994. The property includes a 13,300 square foot building which could be demolished and re-built into an estimated 30 additional guest rooms in the future, if market conditions warrant.

Cavanaughs Templins Resort--Post Falls, Idaho. Acquired by the Company in February 1998 and re-branded as a Cavanaughs hotel, the property is a three- story, 167-room full service hotel which was built in three phases between 1986 and 1996. The Hotel, which is located on the Spokane River, has a 76 slip marina offering boating access to Lake Coeur d'Alene, a popular vacation destination. Amenities include two restaurants, lounge, indoor pool, sauna, spa, fitness center, two tennis courts, and private beach and swim area. The Hotel offers 11,000 square feet of meeting space which is divisible into 14 meeting rooms. The property contains approximately 10.5 acres of excess land upon which an estimated 288 additional guest rooms in a series of low-rise buildings, together with an estimated 10,000 square foot executive conference center and 20,000 square foot retail facilities, may be built in the future, if market conditions warrant.

Cavanaughs at Kalispell Center--Kalispell, Montana. Developed by the Company in 1986 in conjunction with the Company's development of the Kalispell Center Mall, the property is a three-story, 132-room full service hotel located near Glacier National Park, Flathead Lake and Big Mountain Ski Resort. Amenities include a restaurant, lounge, indoor pool, whirlpool, sauna and fitness center. The Hotel offers 10,500 square feet of meeting and banquet space which is divisible into nine meeting rooms. The Hotel is connected to the Company's Kalispell Center Mall. The property contains approximately 3.5 acres of excess land upon which an estimated 48 additional guest rooms and 100,000 square feet of additional retail space may be built in the future, if market conditions warrant.

Cavanaughs Outlaw Hotel--Kalispell, Montana. The property, which the Company intends to acquire for a purchase price of $9.8 million within 60 days of the closing of the Offering, is a two-story, 220-room full service hotel and is the largest full service hotel in northwest Montana. Amenities include a restaurant, lounge, two indoor pools, four whirlpools, sauna, tennis and racquetball courts, and fitness center. The hotel offers approximately 11,000 square feet of meeting and banquet space divisible into 13 meeting rooms.

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Cavanaughs Hillsboro Hotel. The property, which the Company intends to acquire in April 1998 for a purchase price of $5.7 million, is a two-story, 123-room full service hotel located in the suburban Portland metropolitan area. The hotel is adjacent to the Portland/Hillsboro Airport, Washington County Fairplex and in the heart of the Silicon Forest, Oregon's premier high- tech business area. Amenities include a restaurant, lounge, outdoor pool, indoor spa and fitness center. The hotel offers 3,500 square feet of meeting and banquet space divisable into five meeting rooms. The property contains excess land upon which an estimated 70 additional guest rooms may be built, if market conditions warrant.

ENTERTAINMENT SERVICES AND THIRD-PARTY PROPERTY MANAGEMENT

The entertainment, management and services division of the Company is comprised of: (i) G&B Select-a-Seat, a full service theatrical and event ticketing agency, (ii) G&B Presents, a promoter of touring Broadway shows and other special events, and (iii) G&B Real Estate Services, a third-party property management service. Reservations for entertainment events and hotel information and reservations are made through the Toll-Free Call Center. The combination of event ticketing, presentation of Broadway shows, hotel event packages and a centralized reservations system enables the Company to offer packages for hotel guests, generating additional room night occupancy and income from ticket distribution service fees.

G&B Select-A-Seat. G&B Select-a-Seat, established in 1987, is a full service ticketing agency offering box office ticket distribution through 20 regional outlets and box offices in Washington, Idaho and Montana. G&B Select-a-Seat is the exclusive contracted ticket services vendor for certain facilities in these states, including the Spokane Arena, Spokane Opera House, Spokane Symphony, Washington State University's stadium and coliseum, Eastern Washington University and the University of Idaho. During its fiscal year ended October 31, 1997, the Company distributed in excess of 2.0 million tickets. G&B Select-a-Seat uses state of the art software which enables the agency to access the many entertainment events being presented throughout the Northwest. Phone agents are able to coordinate the sales of entertainment and event tickets with guests making hotel room reservations and vice versa. The Company is actively seeking additional ticket distribution opportunities in the Northwest.

G&B Presents. G&B Presents, established in 1987, is one of the largest regional presenters of events in the Washington area. In addition to special events, such as sporting events and musical acts, G&B Presents organizes the presentation of touring Broadway shows in Spokane as part of its "Best of Broadway" series. During 1997, the Company presented nine Broadway shows and special events. Past events have included shows such as Cats, South Pacific and Les Miserables. In its last ten years of operation the Company has attracted over 500,000 patrons to its 79 Broadway and special event shows. The Company cross-markets these productions by creating special event/Hotel packages.

The Toll-Free Call Center. The Toll-Free Call Center is designed to provide centralized hotel and entertainment information and reservation services. Each agent is trained to cross-sell Hotel reservations, event tickets, and special event/Hotel packages. Guests that are traveling to see entertainment events are able to book their hotel room and confirm event tickets in one toll-free call. The Toll-Free Call Center is open 24 hours per day, seven days a week and has the capacity to accept as many as 48 simultaneous phone conversations and provides access to reservations systems used by travel agents world-wide to book hotel rooms. The Toll-Free Call Center also maintains a database which gives reservation agents information on current room and event availability, guest information, history and preferences. Event ticket requests and hotel reservations can be made by calling the Toll-Free Call Center at 1-800-325- 4000 and via the Company's website address at www.cavanaughs.com.

G&B Real Estate Services. The Company is a leading property manager of office, retail and residential space in regions of eastern Washington, northern Idaho and western Montana, with over 3.1 million square feet of commercial space under management. The Company's property management staff includes leasing agents, property managers and building engineers providing full-service commercial property management. The

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Company's residential property management department manages approximately 2,200 residential units in 39 properties. The Company is experienced in the management of a full range of multi-family projects, including low income housing, retirement communities, market rate apartment properties and condominiums.

RENTAL OPERATIONS

The Company is the owner and manager of approximately 590,000 square feet of leasable office and retail space located in Spokane, Washington and Kalispell, Montana. The following is a description of each of the Company's office and retail properties:

Crescent Court--Spokane, Washington. Acquired and substantially re- developed by the Company in 1994, the property is an eight-story, 234,000 square foot mixed-use commercial building comprised of approximately 59,000 square feet of leasable retail space, including a food court, 157,000 square feet of leasable office space and an 8,000 square foot lower level exhibition hall, located in Spokane's central business district. The property is located directly across the street from River Park Square, a $100 million redevelopment project which, when completed in 1999, is expected to include a 130,000 square foot Nordstrom's department store, a number of speciality retailers, a 20 screen AMC multiplex cinema and 300,000 square feet of additional retail and restaurant space. As of December 1997, the retail portion of the property was 63.3% leased to 19 tenants and the office portion of the property was 77.4% leased to four tenants including the Bonneville Power Administration, the U.S. Postal Service regional headquarters, Sallie Mae and The Travelers Group which has an option to lease an additional floor in the building effective December 1999. The Company has determined to retain 22,000 square feet of retail space in the project for future development and leasing pending completion of the River Park Square project.

Lincoln Building--Spokane, Washington. Acquired by the Company in 1984, the property is a 114,000 square foot mixed-use commercial building comprised of approximately 32,000 square feet of retail space, 82,000 square feet of office space, and two floors of underground parking which can accommodate 200 automobiles. The building is located in Spokane's central business district, one block west of the Company's Crescent Court property and one block south of River Park Square. As of December 1997, the retail portion of the property was 66.8% leased to six tenants, including Pacific Northwest Life and Farmers and Merchants Bank. The office tower was 88.4% leased to 25 tenants, including New York Life Insurance and Equitable of Iowa. The Company has determined to retain 26,000 square feet of retail space for future development and leasing pending completion of the River Park Square project.

CHC Building--Spokane, Washington. Developed by the Company in 1986, the property is a six-story, 100,000 square foot office building having an attached three-story parking deck which can accommodate 250 automobiles. The building is located on the north bank of the Spokane River, adjacent to Cavanaughs Inn at the Park. As of December 1997, the property was 100% leased to 23 tenants including the Company, Morgan Stanley Dean Witter Discover, and Avista Energy.

Kalispell Center Mall--Kalispell, Montana. Developed by the Company in 1986 in conjunction with the Company's development of the Cavanaughs at Kalispell Center hotel, the property is a single level enclosed regional mall shopping center containing 163,000 square feet of gross leasable area. As of December 1997, the property was 98% leased to 46 tenants including J.C. Penney and Herbergers. The property is connected to the Cavanaughs at Kalispell Center hotel.

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MANAGEMENT AND EMPLOYEES

The Company employs approximately 1,900 persons. Employees at Cavanaughs Ridpath Hotel currently are represented by labor unions. Management believes its ongoing labor relations are good.

LEGAL PROCEEDINGS

The Company is involved in various lawsuits arising in the normal course of business. The Company believes that the ultimate outcome of these lawsuits will not have a material adverse effect on the Company.

TRADEMARKS

"Cavanaugh's(R)" is a registered trademark of the Company in the United States. The Company has filed an application to register "Cavanaughs" as an additional trademark in the United States and Canada.

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MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information as of February 27, 1998 regarding the Company's directors and executive officers.

NAME	AGE	POSITION
Donald K. Barbieri	52	Chairman, President and Chief Executive Officer
Arthur M. Coffey	42	Executive Vice President, Chief Financial Officer and Director
Richard L. Barbieri	55	Senior Vice President, General Counsel and Director
Thomas M. Barbieri	40	Senior Vice President--Acquisitions and Commercial Operations and Director
David M. Bell	47	Senior Vice President--Project Design, Development and Construction
Lori L. Farnell	43	Vice President--Sales and Marketing
John M. Taffin	34	Vice President--Hotel Operations
Peter F. Stanton	41	Proposed Director
Ronald R. Taylor	50	Proposed Director
Robert G. Templin	74	Proposed Director

Donald K. Barbieri has been President and Chief Executive Officer and a Director of the Company since 1978 and Chairman of the Board since 1996. Mr. Barbieri joined the Company in 1969 and is responsible for the Company's development activities in commercial, residential, hotels and entertainment areas. Mr. Barbieri served as president of the Spokane Chapter of the Building Owners and Managers Association from 1974 to 1975 and served as president of the Spokane Regional Convention and Visitors Bureau from 1977 to 1979. He also served on the Washington Tourism Development Council from 1983 to 1985 and the Washington Economic Development Board while chairing the State of Washington's Quality of Life Task Force from 1985 to 1989. Mr. Barbieri is the brother of Richard and Thomas Barbieri and the brother-in-law of David Bell.

Arthur M. Coffey has been Chief Financial Officer and Executive Vice President of the Company since June 1997 and a Director of the Company since 1990. Mr. Coffey served as Chief Operating Officer of the Company from 1990 to June 1997. Mr. Coffey has been in the hotel business since 1971 and joined the Company in 1981. Mr. Coffey is currently a trustee of the Spokane Area Chamber of Commerce, served as a director of the Washington State Hotel Association from 1996 to 1997, served as director of the Spokane Regional Convention and Visitors Bureau from 1982 to 1985 and served as president of the Spokane Hotel Association from 1989 to 1990.

Richard L. Barbieri has been a Senior Vice President of the Company since September 1997, full-time General Counsel of the Company since 1995 and a Director of the Company since 1978. From 1994 to 1997, Mr. Barbieri served as a Vice President of the Company. From 1978 to 1995, Mr. Barbieri served as outside counsel and Secretary of the Company, during which time he was engaged in the practice of law at Edwards and Barbieri, a Seattle law firm, and then at Riddell Williams Bullitt and Walkinsaw, a Seattle law firm, where he headed the real estate practice group. Mr. Barbieri has also served as chairman of various committees of the State and County Bar Association and as a member of the governing board of the County Bar Association. He also served as vice chairman of the Citizens' Advisory Committee to the Major League Baseball Stadium Public Facilities District in Seattle in 1996 and 1997. Mr. Barbieri is the brother of Donald and Thomas Barbieri and the brother-in-law of David Bell.

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Thomas M. Barbieri has been Senior Vice President--Acquisitions and Commercial Operations of the Company since September 1997 and a Director of the Company since 1985. From 1985 to 1997, Mr. Barbieri served as a Vice President of the Company. Mr. Barbieri joined the Company in 1979 and from 1987 to the present has overseen the management, supervision, and development of the Company's real estate portfolio. From 1982 to 1987, Mr. Barbieri was Operations Manager of the Company's hospitality division. From 1979 to 1981, Mr. Barbieri was the General Manager of Cavanaughs River Inn. He served on Washington State Governor Lowery's Real Estate Advisory Council from 1993 to 1994, as a president of the Downtown Spokane Association from 1992 to 1994, as a director of the Spokane Convention and Visitors Bureau from 1983 to 1987, as a trustee of the Spokane Area Chamber of Commerce from 1987 to 1991 and as a director of the Spokane Economic Development Council from 1991 to 1996. Mr. Barbieri is the brother of Donald and Richard Barbieri and the brother-in-law of David Bell.

David M. Bell has been Senior Vice President--Project Design, Development and Construction of the Company since September 1997 and a Director of the Company since 1985. From 1985 to 1997, Mr. Bell served as Vice President of the Company. He is in charge of new project development, property renovations and major building construction. Since joining the Company in 1984, Mr. Bell has been responsible for numerous projects, including the development of the CHC Building, the Cavanaughs at Kalispell Center hotel and the Kalispell Center Mall, two major room tower additions to Cavanaughs Inn at the Park and the conversion of the U.S. Bank of Washington office building in Seattle into Cavanaughs on Fifth Avenue. Mr. Bell is a registered Professional Engineer. Mr. Bell is the brother-in-law of Donald, Richard and Thomas Barbieri.

Lori L. Farnell has been the Vice President--Sales and Marketing since October 1993. Ms. Farnell joined the Company in 1981 as Director of Sales for the hospitality division. Ms. Farnell is responsible for directing the sales and marketing activities of the Company and the in-house advertising and art department. Prior to joining the Company, Ms. Farnell worked as Director of Sales for the Spokane Davenport Hotel. She is a member of the Eastern Washington University Foundation Board, the Sacred Heart Hospital Ambassadors Board, a past President and Woman of the Year of Executive Women International and an active member of the Washington Society of Association Executives and the National Tour Association.

John M. Taffin has been Vice President--Hotel Operations since September 1997. Mr. Taffin is responsible for the Company's overall hotel operations and directs the Company's yield management strategy. Mr. Taffin joined the Company's hospitality division in November 1995 as a regional manager. Mr. Taffin's prior lodging experience includes 13 years of service with Red Lion Hotels, during which time he was a general manager of various full service hotels throughout the Northwest. Prior to September 1997, Mr. Taffin was responsible for all aspects of operations for the Hotels located in Spokane. Mr. Taffin directs the Company's yield management strategy.

Peter F. Stanton has agreed to become a Director of the Company upon consummation of the Offering. Mr. Stanton is the Chairman, Chief Executive Officer and President of Washington Trust Bank. Mr. Stanton has been with Washington Trust Bank since 1982 and has served as its President since 1990, Chief Executive Officer since 1993 and Chairman since 1997. Mr. Stanton is also Chief Executive Officer, President and a director of W.T.B. Financial Corporation (a bank holding company) and a director of Northern State Bank and Reardon and Rivard & Associates (a registered investment advisor). In addition to serving on numerous civic boards, Mr. Stanton was president of the Washington Bankers Association from 1995 to 1996 and serves as state chairman of the American Bankers Association for 1997 and 1998.

Ronald R. Taylor has agreed to become a Director of the Company upon consummation of the Offering. From 1996 to the present, Mr. Taylor has worked as an independent business consultant. From 1987 to 1996, Mr. Taylor was chairman, president and chief financial officer of Pyxis Corporation (a health care services provider). He is currently a director of Watson Pharmaceuticals, Inc. (a pharmaceutical manufacturer), Allelix Biopharmaceuticals (a biotechnology company) and Cardio Dynamics (a medical device manufacturer).

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Robert G. Templin has agreed to become a Director of the Company upon consummation of the Offering. Mr. Templin has had 50 years of continuous experience in ownership, acquisition and disposition, transaction counseling, development, construction and management work in the lodging industry in the Northwest. From 1962 to 1983, he was Chief Executive Officer of Western Frontiers, a hotel operator. Since 1986, Mr. Templin has served as governor for District II for Best Western, Inc. In 1986, he built Templin's Resort and Conference Center. He served as president of the Idaho Inn Keepers Association from 1975 to 1976 and president of the Coeur d'Alene Chamber of Commerce in 1963. Mr. Templin also served on the Government Affairs Committee of Holiday Inn, Inc. from 1981 to 1982. In addition to his responsibilities as a Director of the Company, Mr. Templin will be asked to represent the Company on the board of the Idaho Travel Council.

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee. Promptly following the closing of the Offering, the Board will establish an audit committee consisting of Peter Stanton and Ronald Taylor (the "Audit Committee"). The Audit Committee will be responsible for making recommendations concerning the engagement of the Company's independent public accountants, reviewing with the independent public accountants the plans and results of the audit engagement, approving professional services provided by the independent public accountants, reviewing the independence of the independent public accountants, considering the range of audit and non- audit fees and reviewing the adequacy of the Company's internal accounting controls.

Compensation Committee. Promptly following the closing of the Offering, the Board will establish a compensation committee consisting of Peter Stanton and Ronald Taylor (the "Compensation Committee"). The Compensation Committee will be responsible for determining compensation for the Company's executive officers and administering the Plans.

OPERATIONS COMMITTEE

The Board has established an operations committee (the "Operations Committee"). The Operations Committee is chaired by Donald Barbieri and consists of Arthur Coffey, Thomas Barbieri, John Taffin, Lori Farnell, David Barbieri, Stephen Barbieri, David Bell and Jack Lucas. The Operations Committee, which is not a committee of the Board, is responsible for implementing the policies established by the Board and shall be under the direction of the Board.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Company expects that the Compensation Committee will consist of Peter Stanton and Ronald Taylor, neither of whom has ever served as an officer of the Company.

COMPENSATION OF DIRECTORS

The Company intends to pay an annual fee of $6,000 to its non-employee Directors which will be paid 50% in cash and 50% in shares of Common Stock. In addition, each non-employee Director will be paid $500 for attendance at each meeting of the Board and $250 for attendance at each meeting of a committee of the Board of which such Director is a member. Directors who are employees of the Company will not receive any fees for their service on the Board or any committee thereof. In addition, the Company will reimburse Directors for their out-of-pocket expenses incurred in connection with their service on the Board. Upon consummation of the Offering, each non-employee Director will be granted options to purchase 10,000 shares of Common Stock at the initial public offering price. These options will vest in 20% increments over the five-year period following the Offering subject to the accelerated vesting schedule described in "--Restricted Stock and Certain Stock Option Grants." Any non- employee Director who ceases to be a Director will forfeit the right to receive any options not previously vested.

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EXECUTIVE COMPENSATION

The following table sets forth all compensation paid by the Company with respect to the fiscal year ended October 31, 1997 to the Chief Executive Officer and the four most highly compensated executive officers whose total annual compensation from the Company exceeded $100,000.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY	ANNUAL COMPENSATION BONUS	ALL OTHER COMPENSATION(1)
Donald K. Barbieri..... President and Chief Executive Officer	1997	$88,776	$256,037	$7,129
Arthur M. Coffey..... Executive Vice President and Chief Financial Officer	1997	$76,680	$211,055	$8,799
Richard L. Barbieri..... Senior Vice President and General Counsel	1997	$79,572	$ 50,891	$6,544
David M. Bell..... Senior Vice President--Project Design, Development and Construction	1997	$67,530	$ 36,136	$7,667
Thomas M. Barbieri..... Senior Vice President--Acquisitions and Commercial Operations	1997	$86,645	$ 46,926	$8,289

(1) Includes contributions to the Company's 401(k) plan as well as premiums paid with respect to such executive officer's health, disability and life insurance policies.

EMPLOYMENT AGREEMENTS

The Company intends to enter into employment agreements with each of Donald Barbieri, Arthur Coffey, Richard Barbieri, David Bell and Thomas Barbieri which will provide for annual base salaries of $155,000 in the case of Donald Barbieri, $130,000 in the case of Mr. Coffey, and $96,000 in the case of Richard Barbieri, Mr. Bell and Thomas Barbieri, subject, in each case, to periodic increases. Each executive officer will be eligible to receive annual bonuses as determined by the Compensation Committee and will be entitled to participate in all existing or future benefit plans of the Company, on the same basis as other senior executive officers of the Company.

The employment agreements with these senior executive officers (as used below, each an "Executive") will be substantially similar and provide as follows. Each Executive shall serve in the position described above through December 31, 1999, unless terminated earlier in accordance with the terms of such agreement. Thereafter, each agreement will automatically be renewed for additional one-year periods, unless terminated by either party upon 120 days' notice prior to any renewal. Each agreement may be terminated by the Company for Cause (as defined in such agreement) or by the Executive (i) for Good Reason (as defined in such agreement) or (ii) within six months of a Change of Control of the Company (as defined in such agreement). If the Executive terminates the agreement for Good Reason (or the Company terminates the agreement without Cause) or, after the initial term ends, unilaterally determines to not renew such Executive's agreement, the Executive will receive a severance payment equal to two times such Executive's total compensation in the prior year, plus a continuation of all benefits for a two-year period, and all outstanding options of such Executive shall become fully vested. If the Executive terminates the agreement following a Change of Control, the severance payment will be equal to three times such Executive's total compensation for the prior year. The Executive is required to devote his full business time and attention to the business and affairs of the Company, except that he may devote

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such reasonable amount of time, as he determines, to (i) serving, with the approval of the Board, as a director, trustee or member of any board or committee of any organization, (ii) engaging in charitable and community activities, (iii) managing his personal investments and affairs, and (iv) acting as a director and officer of Inland Northwest Corporation, previously a wholly-owned subsidiary of the Company; provided, however, that such activities may not involve any material conflict of interest with the interests of the Company or interfere materially with the performance of his duties and responsibilities under such agreement.

Each Executive is eligible to receive a bonus under the Company's management bonus plan or such other plan adopted from time to time. The award and amount of such bonus shall be based upon the Compensation Committee's determination of such Executive's actual performance as measured against established goals. The Company has also agreed to reimburse the Executive for any federal, state or local excise taxes ("Excise Tax"), and any additional taxes to which he may be subject, on any payments to the Executive from the Company as a result of accelerated vesting of his options, up to a maximum reimbursement equal to two times the amount of such Excise Tax.

1998 STOCK INCENTIVE PLAN

In January 1998 the Board adopted the 1998 Plan to attract and retain officers, key employees and consultants. Additional options may be granted subject to Board approval. An aggregate of 1,200,000 shares of Common Stock, subject to adjustment for stock splits, stock dividends and similar events, has been authorized for issuance upon exercise of options, stock appreciation rights ("SARs"), and other awards, including restricted or deferred stock awards under the 1998 Plan. Following the Offering, the Compensation Committee will administer the 1998 Plan and determine to whom options, SARs, restricted stock purchase rights and other awards are to be granted and the terms and conditions, including the number of shares and the period of exercisability, thereof. Upon consummation of the Offering, non-employee Directors will be granted options under the 1998 Plan to purchase 10,000 shares of Common Stock, subject to one year restriction on sale and vesting equal percentages over five years.

The 1998 Plan authorizes the grant or issuance of various options and other awards. Nonqualified stock options ("NQSOs") may be granted for any term specified by the Compensation Committee and will provide for the right to purchase Common Stock at a specified price which, except with respect to NQSOs intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), may be less than fair market value on the date of grant (but not less than par value), and may become exercisable (at the discretion of the Compensation Committee) in one or more installments after the date of grant. Incentive stock options may be granted only to employees and if granted will be designed to comply with the provisions of the Code and will be subject to restrictions contained in the Code, including having an exercise price equal to at least 100% of fair market value of Common Stock on the grant date and ten year restriction on their term, but may be subsequently modified to disqualify them from treatment as an incentive stock option. The maximum fair market value (determined on the date of grant) of shares which may be issued pursuant to incentive stock options granted under the 1998 Plan to any individual in any calendar year may not exceed $100,000. SARs granted by the Compensation Committee in connection with stock options or other awards typically will provide for payments to the holder based upon increases in the price of the Common Stock over the exercise price of the related option or other awards, but alternatively may be based upon other criteria such as book value. Participants may receive dividend equivalents representing the value of the dividends per share paid by the Company, calculated with reference to the number of shares covered by the stock options, SARs or other awards held by the participant. Performance awards may be granted by the Compensation Committee on an individual or group basis and may include bonus or "phantom" stock awards that provide for payments based upon increases in the price of the Common Stock over a predetermined period. Restricted stock may be sold to participants at various prices (but not below par value) and made subject to such restrictions as may be determined by the Compensation Committee. Deferred stock awards may be granted to participants, typically without payment of consideration, but subject to vesting conditions based on continued employment or on performance criteria established by the Compensation Committee. Whereas purchasers of restricted stock will

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have voting rights and will receive dividends prior to the time when the restrictions lapse, recipients of deferred stock generally will have no voting or dividend rights prior to the time when vesting conditions are satisfied.

Payments for the shares purchased upon the exercise of options may be in cash or, if the terms of an option so provide, with shares of Common Stock owned by the optionee (or issuable upon exercise of the option) or with other lawful consideration, including services rendered.

No option, SAR or other right to acquire Common Stock granted under the 1998 Plan may be assigned or transferred by the grantee, except by will or the laws of succession, although the shares underlying such rights may be transferred if all applicable restrictions have lapsed. During the lifetime of the holder of any option or right, such option or right may be exercised only by the holder.

The Compensation Committee will have the right to accelerate, in whole or in part, from time to time, including upon a change in control of the Company, conditionally or unconditionally, the right to exercise any option or other award granted under the 1998 Plan.

Amendments of the 1998 Plan to increase the number of shares as to which options, SARs, restricted stock and other awards may be granted (except for adjustments resulting from stock splits and similar events) will require the approval of the Company's shareholders. In all other respects, the 1998 Plan may be amended, modified, suspended or terminated by the Compensation Committee, unless such action would otherwise require shareholder approval as a matter of applicable law, regulation or rule. Amendments of the 1998 Plan will not, without the consent of the participant, affect such person's rights under an award previously granted, unless the award itself otherwise expressly so provides. The 1998 Plan will terminate ten years after the date the 1998 Plan was adopted by the Board and approved by the Company's shareholders.

EMPLOYEE STOCK PURCHASE PLAN

In January 1998, the Company adopted the Employee Stock Purchase Plan to assist employees of the Company in acquiring a stock ownership interest in the Company and to encourage them to remain in the employment of the Company. The Employee Stock Purchase Plan is intended to qualify under Section 423 of the Code. A maximum of 300,000 shares of Common Stock will be reserved for issuance under the Employee Stock Purchase Plan. The Employee Stock Purchase Plan permits eligible employees to purchase Common Stock at a discount through payroll deductions during specified six-month offering periods. No employee may purchase more than $25,000 worth of Common Stock in any calendar year. The price of shares purchased under the Employee Stock Purchase Plan will be equal to 85% of the fair market value of the Common Stock on the first or last day of the offering period, whichever is lower. After the Offering, the Employee Stock Purchase Plan will be administered by the Compensation Committee.

401(K) PLAN

The Company adopted a tax-qualified employee savings and retirement plan (the "401(k) Plan") effective as of March 1, 1989 covering all employees who have been employed by the Company for at least 90 days and who are at least 21 years of age. Pursuant to the 401(k) Plan, participants may elect to reduce their current compensation by not less than 1.0% nor more than 15.0% of eligible compensation. The amount of each participant's contributions to the
401(k) Plan is partially matched by the Company based on years of service and amounts contributed, up to 3% of a participant's earnings. The trustee under the 401(k) Plan invests the assets of the 401(k) Plan in designated investment options. The Company intends to amend the 401(k) Plan after the Offering to permit participants to designate the Company's Common Stock as an investment option; provided, however, no more than 15% of a participant's total investments in the 401(k) Plan may be allocated to the Common Stock. The
401(k) Plan is intended to qualify under Section 401 of the Code so that
(i) contributions to the 401(k) Plan, and the income earned on such contributions, are not taxable to participants until withdrawn from the 401(k) Plan and (ii) contributions by the Company are deductible by the Company when made for income tax purposes.

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RESTRICTED STOCK AND CERTAIN STOCK OPTION GRANTS

The Company has entered into an agreement to issue an aggregate of 55,000 restricted shares of Common Stock under the 1998 Plan to five members of senior management: Arthur Coffey (15,000 shares), John Taffin (10,000 shares), Lori Farnell (10,000 shares), David Peterson (10,000 shares) and Shannon Kapek (10,000 shares). Twenty percent of each recipient's stock grant will be issued on the date of grant and an additional twenty percent will be issued on each anniversary of such date of grant, provided such person is an employee of the Company at that time.

In connection with the Offering, options to purchase up to 900,000 shares of Common Stock will be granted pursuant to the Plans, at an exercise price equal to the initial public offering price, including options to be granted to Donald Barbieri (90,000 shares), Arthur Coffey (55,000 shares), Richard Barbieri (45,000 shares), Thomas Barbieri (45,000 shares) and David Bell (45,000 shares). The options will have a term of ten years. Fifty percent of each recipient's options will vest on the fourth anniversary of the date of grant and the remaining 50% will vest on the fifth anniversary of the date of grant. This vesting schedule will change if, beginning one year after the option grant date, the stock price of the Common Stock reaches the following target levels (measured as a percentage increase over the exercise price) for 20 consecutive trading days:

SHARE PRICE INCREASE:	PERCENT OF OPTION SHARES VESTED:
25%.....	25%
50%.....	50%
75%.....	75%
100%.....	100%

Such options shall be exercisable, subject to vesting, for ten years from the date of grant and in all other respects shall be subject to the terms and conditions of the 1998 Plan. Vesting of such options is also conditioned upon the holder's employment with the Company on the scheduled vesting date.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Prior to November 1, 1997, all of the assets of the Company were held by the Company and BIC directly, or indirectly through various limited partnerships (the "Limited Partnerships") and corporations wholly-owned (with one exception) by the Company and/or BIC, as the case may be, and all of the Hotels and other properties owned by the Company, BIC and the Limited Partnerships were managed by the Company, as the general partner of the Limited Partnerships, or through various management agreements with BIC or the Limited Partnerships. Effective November 3, 1997, BIC merged with and into the Company. The Merger was a stock-for-stock merger, pursuant to which the holders of the common stock of BIC and the holders of preferred and common stock of the Company received an aggregate of 7,084,253 shares of Common Stock of the Company pursuant to conversion ratios jointly determined by the boards of directors of the Company and BIC and unanimously approved by the shareholders of the Company and BIC. By effecting a merger of the holders of the general and limited partnership interests in the Limited Partnerships, the Merger resulted in the dissolution of, and a transfer to the Company by operation of law of all assets and property held by, the Limited Partnerships, with the exception of Cowley Street Limited Partnership.

Also effective November 1, 1997, the Company (i) contributed certain assets not related to its core hospitality business to Inland Northwest Corporation, a wholly owned subsidiary of the Company ("INWC"), and (ii) distributed shares of capital stock of INWC and Huckleberry Bay Company, another wholly-owned subsidiary of the Company ("HBC"), on a pro rata basis, to the shareholders of the Company (the "Spin-Off"). As a result of the foregoing transactions, the following assets are no longer part of the Company's operations: recreational real estate in Priest Lake, Idaho, a long-term residence inn operation, an interest in a milk processing and distribution business and a retail sales operation. The Company recorded management fees and other income of approximately $35,000, $31,000 and $27,000 during the years ended October 31, 1997, 1996 and 1995, respectively, and $17,000 for the two months ended December 31, 1997 for performing management and administrative functions for INWC and HBC. In addition, the Company received commissions from INWC and HBC for real estate sales on behalf of INWC and HBC of $87,000, $7,000 and $51,000 for the years ended October 31, 1997, 1996 and 1995, respectively, and $1,000 for the two months ended December 31, 1997. In connection with the Spin-Off, the Company entered into an agreement with INWC, pursuant to which it will provide management, development, accounting and other administrative services to INWC in exchange for commissions, leasing fees, management fees, service fees and development fees, as applicable, based on certain percentages and costs incurred by the Company in connection with providing such services. The agreement is automatically renewed annually and is subject to termination at the option of either party upon 60 days' notice before such renewal date.

The Company acquired a hotel property (Cavanaughs Templins Resort) from Templin's Resort and Conference Center, Inc. in February 1998. Robert Templin, the President of Templin's Resort and Conference Center, Inc., has agreed to become a Director of the Company upon consummation of the Offering. The purchase price paid by the Company for this Hotel was $9.5 million consisting of cash, assumed indebtedness and a note to the seller. Mr. Templin and members of his immediate family own 100% of equity interest in Templin's Resort and Conference Center, Inc. and are entitled to receive all of the net proceeds of the purchase price paid for this Hotel. The purchase price was determined through arm's-length negotiations between the Company and Mr. Templin.

In connection with the acquisition of certain real property, the Company incurred a $600,000 obligation payable to the Barbieri Family Foundation, Inc. ("BFF"), a corporation controlled by the estate of Louis Barbieri, who was the father of Donald, Richard and Thomas Barbieri. BFF is entitled to receive a guaranteed interest payment of approximately $67,000 annually, which, pursuant to the terms of the obligation, increases by 3% annually. The Company has the right to repay its obligation in full at any time after January 1997, and BFF has the right to require redemption in full at any time after January 1999. Interest expense of $67,000, $66,000 and $64,000 was paid by the Company to BFF during the years ended October 31, 1997, 1996 and 1995, respectively, and $11,000 for the two months ended December 31, 1997. The Company will repay this obligation upon closing of the Offering.

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Effective January 1, 1998, the Company issued an aggregate of 150,817 OP Units to BFF, Donald Barbieri, Richard Barbieri and Thomas Barbieri and 12,228 shares of Common Stock to Kathryn Barbieri in exchange for such persons' undivided partnership interests in the Lincoln Building Limited Partnership.

At December 31, 1997, the Company had a $1.1 million note payable to INWC. The note will be paid in full upon closing of the Offering.

The Company intends to enter into employment agreements with each of Donald Barbieri, Arthur Coffey, Richard Barbieri, David Bell and Thomas Barbieri which will provide for annual base salaries of $155,000, $130,000, $96,000, $96,000 and $96,000, respectively. Each executive officer will be eligible to receive annual bonuses as determined by the Compensation Committee and will be entitled to participate in all existing or future benefit plans of the Company, on the same basis as other senior executive officers of the Company.

At October 31, 1997, the Company had loans totaling approximately $11.5 million with Washington Trust Bank, of which Peter Stanton, a Director nominee, is the Chief Executive Officer and President.

With respect to future material transactions (or series of related transactions) between the Company and related parties, the Company has implemented a policy requiring any such transaction to be approved by a majority of the non-employee Directors, if any, upon such directors' determination that the terms of the transaction are no less favorable to the Company than those that could be obtained from unrelated third parties.

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OWNERSHIP OF COMMON STOCK

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of February 27, 1998, and as adjusted to reflect the sale of 5,175,000 shares of Common Stock by the Company in the Offering and the issuance concurrent with the closing of Offering of 11,000 restricted shares of Common Stock, by (i) all persons known by the Company to own beneficially more than 5% of the Common Stock, (ii) each director, (iii) each of the named executive officers and (iv) all directors and executive officers as a group. Unless otherwise indicated, the business address of each shareholder is 201 W. North River Drive, Suite 100, Spokane, Washington, 99201.

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED(1)	PERCENTAGE OF COMMON STOCK BEFORE OFFERING	PERCENTAGE OF COMMON STOCK AFTER OFFERING
Donald K. Barbieri(2)	3,597,402	50.8%	29.3%
DKB and HHB Unity Trust	958,379	13.5	7.8
Heather H. Barbieri(3)	958,379	13.5	7.8
Barbieri Family Trust	587,070	8.3	4.8
Thomas M. Barbieri	543,871	7.7	4.4
David M. Bell	543,871	7.7	4.4
Richard L. Barbieri(2)	1,488,537	21.0	12.1
Arthur M. Coffey(4)	3,000	--	*
Mark E. Barbieri	423,275	6.0	3.5
Peter F. Stanton(5)	--	--	--
Ronald R. Taylor(5)	--	--	--
Robert G. Templin(5)	--	--	--
All directors and executive officers as a group (5 persons)	5,218,302	73.7%	42.6%

* Represents less than 1%.

(1) For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of shares of Common Stock as of a given date which such person has the right to acquire within 60 days after such date. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above on a given date, any security which such person or persons has the right to acquire within 60 days after such date is deemed to be outstanding, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(2) Includes 958,379 shares of Common Stock held by the DKB & HHB Unity Trust, an irrevocable trust, of which Mr. Barbieri is a co-trustee. Mr. Barbieri disclaims beneficial ownership of such shares.

(3) These shares are held by the DKB & HHB Unity Trust, an irrevocable trust, of which Ms. Barbieri is a co-trustee. Ms. Barbieri disclaims beneficial ownership of such shares.

(4) The Company has agreed to issue Mr. Coffey an aggregate of 15,000 restricted shares of Common Stock under the 1998 Plan over four years, 3,000 shares of which Mr. Coffey will receive upon closing of the Offering.

(5) Messrs. Stanton, Taylor and Templin have agreed to become directors of the Company upon closing of the Offering.

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PARTNERSHIP AGREEMENT OF THE OPERATING PARTNERSHIP

The following summary of the material terms of the Agreement of Limited Partnership of the Operating Partnership (the "Partnership Agreement") is qualified in its entirety by reference to the Partnership Agreement, which is filed as an exhibit to the Registration Statement of which this Prospectus is a part. See "Additional Information."

The Operating Partnership is organized as a Delaware limited partnership. The Company is the sole general partner of the Operating Partnership, and the Company, its wholly-owned subsidiary, North River Drive Company, and certain members of the Barbieri Family are currently the sole limited partners of the Operating Partnership. The Company intends to conduct substantially all of its business through the Operating Partnership. Generally, pursuant to the Partnership Agreement, the Company, as the sole general partner of the Operating Partnership, will have full, exclusive and complete responsibility and discretion in the management and control of the Operating Partnership, including the ability to cause the Operating Partnership to enter into certain major transactions including acquisitions, dispositions and refinancings and to cause changes in the Operating Partnership's line of business and distribution policies. The limited partners of the Operating Partnership will have no authority to transact business for, or participate in the management activities or decisions of, the Operating Partnership, except as provided in the Partnership Agreement and as required by applicable law.

INDEMNIFICATION

The Partnership Agreement provides for indemnification of the Company and officers and directors of the Company and the Operating Partnership (each, an "Indemnitee") from and against all losses, damages and expenses arising from any claims that relate to the Operating Partnership in which such Indemnitee may be involved, unless (i) the act or omission of the Indemnitee was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty; (ii) the Indemnitee actually received an improper personal benefit in money, property or services; or (iii) in the case of any criminal proceeding, the Indemnitee had reasonable cause to believe that the act or omission was unlawful. This indemnification is in addition to any other rights to which an Indemnitee may be entitled.

TRANSFERABILITY OF INTERESTS

Except for a transaction described in the following two paragraphs, the Partnership Agreement provides that the Company may not voluntarily withdraw from the Operating Partnership, or transfer its general partner interest in the Operating Partnership, without the consent of the holders of a majority of the partner interests held by the limited partners (including the limited partnership interests held by the Company, which will represent approximately 98.8% of the total partner interests upon consummation of the Offering). Pursuant to the Partnership Agreement, the limited partners have agreed not to transfer, assign, sell, encumber or otherwise dispose of, without the consent of the general partner, their interest in the Operating Partnership, other than (a) transfers to (i) the general partner, (ii) immediate family members or (iii) charitable foundations or (b) pledges to unaffiliated lending institutions.

The Company may not engage in any merger, consolidation or other combination with or into another person, sale of all or substantially all of its assets or any reclassification, recapitalization or change of the Common Stock (other than a change in par value and subdivisions or combinations of the Common Stock) (each a "Transaction") unless the Transaction has been approved by holders of at least a majority of the OP Units (including OP Units held by the Company, which will represent approximately 98.8% of all OP Units outstanding upon consummation of the Offering) and in connection with which all limited partners will receive for each OP Unit an amount of cash, securities or other property equal to the product of the number of shares of Common Stock into which each OP Unit is then exchangeable and the greatest amount of cash, securities or other property paid to a holder of one share of Common Stock in consideration of one share of Common Stock pursuant to such Transaction.

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The Company may also merge with another entity if immediately after such merger substantially all of the assets of the surviving entity, other than OP Units held by the Company, are contributed to the Operating Partnership as a capital contribution in exchange for OP Units with a fair market value, as reasonably determined by the Company, equal to the value of the assets so contributed.

ISSUANCE OF ADDITIONAL OP UNITS

As sole general partner of the Operating Partnership, the Company has the ability to cause the Operating Partnership to issue additional OP Units, including units of limited partnership interests having rights superior to those attaching to outstanding OP Units; provided, however, that no such additional OP Units shall be issued to the general partner unless either (a) the additional OP Units are issued in connection with the grant, award, or issuance of shares of Common Stock, which shares have rights (except for voting rights) such that the economic interests attributable to such shares are substantially similar to the rights of the additional OP Units issued to the general partner, and (2) the general partner makes a capital contribution to the Operating Partnership in an amount equal to the proceeds, if any, raised in connection with the issuance of such shares of Common Stock, or (b) the additional OP Units are issued pro rata to all partners.

ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK

The Company may issue shares of Common Stock from time to time after the Offering; provided, however, that the Company may not issue any additional shares of Common Stock (other than shares issued pursuant to the redemption/exchange provisions of the Partnership Agreement described below), or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase Common Stock (collectively "New Securities"), other than to all holders of Common Stock, unless (i) the Company causes the Operating Partnership to issue to the Company OP Units or rights, options, warrants or convertible or exchangeable securities of the Operating Partnership having designations, preferences and other rights, all such that the economic interests are substantially the same as those of the grant, award or issuance of such New Securities, and (ii) the Company contributes the net proceeds from the grant, award or issuance of such New Securities and from the exercise of rights contained in such New Securities to the Operating Partnership.

CAPITAL CONTRIBUTIONS

The Partnership Agreement provides that if the Operating Partnership requires additional funds at any time or from time to time in excess of funds available to the Operating Partnership from borrowings or capital contributions, the Company may borrow such funds from a financial institution or other lender or through public or private debt offerings and lend such funds to the Operating Partnership on the same terms and conditions as are applicable to the Company's borrowing of such funds. As an alternative to borrowing funds required by the Operating Partnership, the Company may contribute the amount of such required funds as an additional capital contribution to the Operating Partnership. If the Company so contributes additional capital to the Operating Partnership, the Company's partnership interest in the Operating Partnership will be increased on a proportionate basis. Conversely, the partnership interests of the limited partners will be decreased on a proportionate basis in the event of additional capital contributions by the Company.

AWARDS UNDER 1998 STOCK INCENTIVE PLAN

If options granted in connection with the 1998 Plan are exercised at any time or from time to time, or restricted shares of Common Stock are issued under the 1998 Plan, the Partnership Agreement requires the Company to contribute to the Operating Partnership as an additional contribution the consideration received by the Company in connection with the issuance of such options or shares of Common Stock or the proceeds received by the Company upon issuance of the shares relating to such options. Upon such contribution the Company will be issued a number of OP Units in the Operating Partnership equal to the number of shares of Common Stock so issued.

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REDEMPTION/EXCHANGE RIGHTS

Limited partners have the right (the "Redemption Right") to require the Operating Partnership to redeem part or all of their OP Units for cash, based upon the fair market value (as defined) of the number of shares of Common Stock for which each OP Unit is then exchangeable at the time of such redemption. The Company may elect to exchange such OP Units for shares of Common Stock (on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, issuance of certain rights, certain extraordinary distributions and similar events). With each such redemption or exchange, the Company's percentage ownership interest in the Operating Partnership will increase. This redemption/exchange right may be exercised by limited partners from time to time, in whole or in part, subject to the limitation that such right may not be exercised prior to the expiration of one year following the date on which such limited partner acquired his OP Units.

TAX MATTERS

Pursuant to the Partnership Agreement, the Company will be the tax matters partner of the Operating Partnership and, as such, will have authority to make tax elections under the Code on behalf of the Operating Partnership. The net income or net loss of the Operating Partnership will generally be allocated to the Company and the limited partners in accordance with their respective percentage interests in the Operating Partnership, subject to compliance with the provisions of Sections 704(b) and 704(c) of the Code and the Treasury Regulations promulgated thereunder.

OPERATIONS

The Partnership Agreement provides that the net income of the Operating Partnership, as well as net sales and refinancing proceeds, will be distributed from time to time as determined by the Company pro rata in accordance with the partners' respective percentage interests. Pursuant to the Partnership Agreement, the Operating Partnership will assume and pay when due, or reimburse the Company for payment of, all expenses it incurs relating to the ownership and operation of, or for the benefit of, the Operating Partnership and all costs and expenses relating to the operations of the Company.

OUTSIDE ACTIVITIES OF THE GENERAL PARTNER; LIMITATIONS ON INDEBTEDNESS; BORROWINGS

The Company, as general partner, may not enter into or conduct any business other than in connection with the ownership, acquisition and disposition of OP Units, the management of the business of the Operating Partnership and such activities as are incidental or related thereto. The Company may not incur any debts other than (i) debt of the Operating Partnership for which it may be liable in its capacity as general partner of the Operating Partnership, and
(ii) indebtedness for borrowed money the proceeds of which are loaned to the Operating Partnership on the same terms and conditions as the borrowing by the general partner.

CONTRACTS WITH AFFILIATES

The Operating Partnership may lend or contribute funds or other assets to its subsidiaries or other entities in which it has an equity investment, and such persons may borrow funds from the Operating Partnership, on terms and conditions established in the discretion of the general partner. The Operating Partnership may transfer assets to joint ventures, other partnerships, corporations or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions consistent with the Partnership Agreement and applicable law as the general partner, in its discretion, believes are advisable. Except as expressly permitted by the Partnership Agreement, neither the general partner nor any of its affiliates may sell, transfer or convey any property to, or purchase any property from, the Operating Partnership, except pursuant to transactions that are determined by the general partner in good faith to be fair and reasonable and no less favorable to the Operating Partnership than would be obtained from an unaffiliated third party.

TERM

The term of the Operating Partnership commenced on October 21, 1997, the date the certificate of limited partnership was filed in the office of the Secretary of State of Delaware and will continue until October 31, 2097, unless the Operating Partnership is dissolved (sooner) pursuant to the provisions of the Partnership Agreement or as otherwise provided by law.

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DESCRIPTION OF CAPITAL STOCK

The following summary information is qualified in its entirety by the provisions of the Articles and By-Laws, copies of which have been filed as exhibits to the Registration Statement of which this Prospectus is a part.

GENERAL

Under the Articles, the authorized capital stock of the Company consists of 50,000,000 shares of Common Stock, par value $.01 per share, and 5,000,000 shares of preferred stock, par value $.01 per share (the "Preferred Stock"). Following the consummation of the Offering, 12,270,253 shares of Common Stock will be issued and outstanding and no shares of Preferred Stock will be issued and outstanding.

COMMON STOCK

Except as otherwise provided by law, each holder of Common Stock is entitled to one vote for each share owned of record on all matters voted upon by holders of Common Stock, and a majority vote is required for all action to be taken by such shareholders. Each share of Common Stock has an equal and ratable right to receive dividends when, as and if declared by the Board out of funds legally available therefor and subject to the dividend obligations of the Company to the holders of any Preferred Stock then outstanding. See "Dividend Policy." In the event of a liquidation, dissolution or winding-up of the Company, the holders of Common Stock will be entitled to share equally and ratably in the assets of the Company, if any, remaining after the payment of all debts and liabilities of the Company and the liquidation preference of any holders of outstanding Preferred Stock. The Common Stock has neither preemptive or cumulative voting rights nor redemption, sinking fund or conversion provisions.

PREFERRED STOCK

The Board is authorized to issue, without shareholder approval, up to 5,000,000 shares of Preferred Stock in one or more series and to determine at the time of creating such series the designations, and the powers, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions thereon including voting powers, dividend rights, liquidation preferences, redemption rights and conversion privileges. The Board may issue Preferred Stock with voting and conversion rights which could adversely affect the voting power of the holders of Common Stock. The issuance of Preferred Stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of the Company. As of the date of this Prospectus, the Board has not authorized any series of Preferred Stock and there are no agreements for the issuance of any shares of Preferred Stock.

CERTAIN PROVISIONS OF ARTICLES AFFECTING SHAREHOLDERS

The Articles and By-Laws provide for shareholder action by written consent and reserve to the directors the exclusive right to change the number of directors or to fill vacancies on the Board. The Articles also provide for the Board to be divided into three classes of directors serving staggered three year terms. As a result, approximately one-third of the Board will be elected each year. The purpose and intended effect of the above described provisions in the Articles and By-Laws are to enhance the continuity and stability of the Company's management by making it more difficult for shareholders to remove or change the incumbent members of the Board. Such provisions, coupled with the ownership by existing shareholders of approximately 60% of the Common Stock following the Offering, could also render the Company more difficult to be acquired pursuant to an unfriendly acquisition by an outsider by making it more difficult for such person to obtain control of the Company and replace current management without the approval of the Board.

The Company has included in the Articles and By-Laws provisions to (i) eliminate the personal liability of its directors for monetary damages resulting from breaches of their fiduciary duty to the extent permitted by the

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Washington Business Corporations Act, as amended from time to time (the "Washington Act"), and (ii) indemnify its directors and officers to the fullest extent permitted by the Washington Act, including circumstances in which indemnification is otherwise discretionary. The Company believes that these provisions are necessary to attract and retain qualified persons as directors and officers. The Company's employment agreements with certain executive officers and directors contain additional indemnification provisions.

WASHINGTON ANTI-TAKEOVER STATUTE

Washington law contains certain provisions that may have the effect of delaying, deterring or preventing a takeover or change in control of the Company. Chapter 23B.19 of the Washington Act prohibits the Company, with certain exceptions, from engaging in certain significant business transactions with an "acquiring person" (defined as a person who acquires 10% or more of the Company's voting securities without the prior approval of the Board) for a period of five years after such acquisition. The prohibited transactions include, among others, a merger with, disposition of assets to, or issuance or redemption of stock to or from, the acquiring person, or otherwise allowing the acquiring person to receive any disproportionate benefit as a shareholder. The Company may not exempt itself from coverage of this statute.

TRANSFER AGENT AND REGISTRAR

The Company has appointed American Stock Transfer & Trust Company as the Company's transfer agent and registrar for the Common Stock.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this Offering (assuming no exercise of the Underwriters' over-allotment option), the Company will have 12,270,253 shares of Common Stock outstanding on the date of the Offering. Of these shares, all of the shares of Common Stock sold in this Offering will be freely tradeable by persons other than "affiliates" of the Company without restriction or limitation under the Securities Act. The remaining 7,084,253 shares are "restricted securities" within the meaning of Rule 144 adopted under the Securities Act (the "Restricted Shares") and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including the exemption contained in Rule 144. The Company and its executive officers and directors have agreed that, subject to certain limited exceptions, for a period of one year from the date of this Prospectus they will not, without the prior written consent of CIBC Oppenheimer Corp., offer, sell, contract to sell or otherwise dispose of any shares of Common Stock or any securities convertible into, or exercisable for, Common Stock. Donald Barbieri, who will own 21.5% of the outstanding Common Stock after the Offering, has agreed, subject to the same exceptions contained in the foregoing lock-up agreements, not to sell, offer to sell, contract to sell, pledge or otherwise dispose of or transfer, directly or indirectly, any shares of Common Stock or other capital stock, or any securities convertible into or exchangeable or exercisable for, or any rights to purchase or acquire, shares of Common Stock or other capital stock, for a period of three years commencing on the date of this Prospectus, without the prior written consent of CIBC Oppenheimer Corp.; provided, however, Mr. Barbieri may sell or otherwise transfer ownership of up to one-third of his shares of Common Stock on each anniversary of the date of this Prospectus without the consent of CIBC Oppenheimer Corp. See "Underwriting."

In general, under Rule 144 as currently in effect, if one year has elapsed since the later of the date of acquisition of Restricted Shares from the Company or any "affiliate" of the Company, as that term is defined under the Securities Act, the acquiror or subsequent holder thereof is entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then-outstanding shares of the Company or the average weekly trading volume of the Common Stock on all exchanges and/or reported through the

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automated quotation system of a registered securities association during the four calendar weeks preceding the date on which notice of the sale is filed with the Securities and Exchange Commission. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. If two years have elapsed since the date of acquisition of Restricted Shares from the Company or from any "affiliate" of the Company, and the acquiror or subsequent holder thereof is deemed not to have been an affiliate of the Company at any time during the 90 days preceding a sale, such person would be entitled to sell such shares in the public market under Rule 144 without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements.

Prior to the Offering, there has been no public market for the Common Stock and the effect, if any, that future sales of Restricted Shares, the availability of such Restricted Shares for sale, the issuance of shares of Common Stock upon the exercise of options or otherwise or the perception that such sales could occur will have on the market price prevailing from time to time cannot be predicted. Nevertheless, sales of substantial amounts of Restricted Shares in the public market could have an adverse effect on the market price for the Common Stock.

A total of 1,500,000 shares of Common Stock have been reserved for issuance under the Plans. The Company intends to grant options to purchase an aggregate of up to 900,000 shares of Common Stock at an exercise price equal to the initial public offering price in connection with the closing of this Offering. The Company intends to file a Registration Statement on Form S-8 under the Securities Act registering the 1,500,000 shares of Common Stock reserved for issuance under the Plans promptly after completion of the Offering. As a result, shares of Common Stock issued upon exercise of stock options granted under the Plans will be freely tradeable by persons other than "affiliates" of the Company without restriction or limitation under the Securities Act.

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UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement between the Company and the underwriters named below (the "Underwriters"), for whom CIBC Oppenheimer Corp. and NationsBanc Montgomery Securities LLC are acting as representatives (the "Representatives"), each of the Underwriters has severally agreed to purchase from the Company, and the Company has agreed to sell to the Underwriters, the number of shares of Common Stock set forth below opposite their respective names:

UNDERWRITER	NUMBER OF SHARES TO BE PURCHASED
CIBC Oppenheimer Corp.	
NationsBanc Montgomery Securities LLC	
Total	5,175,000

The Underwriting Agreement provides that the obligations of the several Underwriters are subject to approval of certain legal matters by counsel and to various other conditions. The Underwriters are committed to purchase and pay for all of the above shares of Common Stock if any are purchased.

The Representatives have advised the Company that the Underwriters propose to offer the shares of Common Stock to the public at the public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of $ per share of Common Stock. The Underwriters may allow, and such dealers may re-allow, a concession not in excess of $ per share of Common Stock on sales to certain other brokers or dealers. After the Offering, the public offering price, concession and re- allowance to dealers may be changed by the Underwriters.

Prior to the Offering, there has been no public trading market for the Common Stock. Consequently, the initial public offering price for the shares of Common Stock included in the Offering was determined through negotiations between the Company and the Representatives. The factors considered in determining the initial public offering price included the history of, and the prospects for, the Company's business and the industry in which it competes, an assessment of the Company's management, the past and present operations of the Company, the historical results of operations of the Company, the prospects for future earnings of the Company, the general condition of the securities markets at the time of the Offering and the recent market prices of securities of publicly traded companies which are comparable to the Company.

The Company, its executive officers and directors and certain shareholders of the Company have agreed not to sell, offer to sell, contract to sell, pledge or otherwise dispose of or transfer, directly or indirectly, any shares of Common Stock or other capital stock, or any securities convertible into or exchangeable or exercisable for, or any rights to purchase or acquire, shares or Common Stock or other capital stock for a period of one year commencing on the date of this Prospectus, without the prior written consent of CIBC Oppenheimer Corp., other than the sale of the shares of Common Stock in the Offering and the issuance or transfer of: (i) options to purchase shares of Common Stock (and shares of Common Stock issuable upon the exercise of such options) issued pursuant to the Plans; (ii) shares of Common Stock in connection with estate planning; (iii) 55,000 restricted shares of Common Stock to be awarded to certain employees of the Company; and (iv) securities of the Company or the Operating Partnership issued in connection with the acquisition by the Company of real property or interests in entities holding real property, provided that the recipient or transferee of such securities agrees in writing to be subject to the lock-up contained in this paragraph (without giving effect to clauses (i), (ii) and (iii)) for a period ending on the date that is one year after the date hereof. Donald Barbieri, who will own 21.5% of the Common Stock outstanding after the Offering, has agreed, subject to the same exceptions

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contained in the foregoing lock-up agreements, not to sell, offer to sell, contract to sell, pledge or otherwise dispose of or transfer, directly or indirectly, any shares of Common Stock or other capital stock, or any securities convertible into or exchangeable or exercisable for, or any rights to purchase or acquire, shares of Common Stock or other capital stock, for a period of three years commencing on the date of this Prospectus, without the prior written consent of CIBC Oppenheimer Corp.; provided, however, Mr. Barbieri may sell or otherwise transfer ownership of up to one-third of his shares of Common Stock on each anniversary of the date of this Prospectus without the consent of CIBC Oppenheimer Corp.

The Underwriters have been granted a 30-day over-allotment option to purchase from the Company up to an aggregate of 776,250 additional shares of Common Stock, exercisable at the public offering price less the underwriting discount and commissions set forth on the cover page of this Prospectus. If the Underwriters exercise such over-allotment option, then each of the Underwriters will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage thereof as the number of shares of Common Stock to be purchased by it as shown on the above table bears to the total number of shares of Common Stock offered hereby. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of Common Stock offered hereby.

Until the distribution of the Common Stock is completed, rules of the Securities and Exchange Commission may limit the ability of the Underwriters to bid for and purchase shares of Common Stock. As an exception to these rules, the Underwriters are permitted to engage in certain transactions that stabilize or otherwise affect the price of the Common Stock. Such transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Common Stock.

If the Underwriters create a short position in the Common Stock in connection with the Offering, (i.e., if they sell more shares of Common Stock than are set forth on the cover page of this Prospectus), the Underwriters may reduce that short position by purchasing Common Stock in the open market. The Underwriters also may elect to reduce any short position by exercising all or part of the over-allotment option described herein. In addition, CIBC Oppenheimer Corp., on behalf of the Underwriters, may impose "penalty bids" under contractual arrangements with the Underwriters whereby it may reclaim from an Underwriter (or selling group member participating in the Offering) for the account of the other Underwriters, the selling concession with respect to Common Stock that is distributed in the Offering but subsequently purchased for the account of the Underwriters in the open market.

In general, purchases of a security for the purpose of stabilization or to reduce a syndicate short position could cause the price of the security to be higher than it might otherwise be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of a security to the extent that it were to discourage resales of the security.

Neither the Company nor any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Stock. In addition, neither the Company nor any of the Underwriters makes any representation that the Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Representatives have informed the Company that the Underwriters do not intend to confirm, without customer authorization, sales to their customer accounts as to which they have discretionary trading power.

The Company has agreed to indemnify the several Underwriters against certain liabilities, including, without limitation, liabilities under the Securities Act, or to contribute to payments that the Underwriters may be required to make in respect thereof.

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EXPERTS

The combined balance sheets as of October 31, 1996 and 1997 and December 31, 1997 and the combined statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended October 31, 1997, and for the two months ended December 31, 1997, included in this Prospectus, have been included herein in reliance on the report of Coopers & Lybrand L.L.P., independent accountants, given on the authority of that firm as experts in accounting and auditing.

LEGAL MATTERS

Certain legal matters will be passed upon for the Company by Kaye, Scholer, Fierman, Hays & Handler, LLP, Los Angeles, California and for the Underwriters by Rogers & Wells LLP, New York, New York. The validity of the Common Stock offered hereby and certain other legal matters will be passed upon for the Company by Dennis McLaughlin & Associates P.S., Spokane, Washington.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission, 450 Fifth Street N.W., Washington, D.C. 20549, a Registration Statement on Form S-1 under the Securities Act and the rules and regulations promulgated thereunder, with respect to the Common Stock offered pursuant to this Prospectus. This Prospectus, which is part of the Registration Statement, does not contain all of the information set forth in the Registration Statement and the exhibits thereto. For further information with respect to the Company and the Common Stock, reference is made to the Registration Statement and such exhibits, copies of which may be examined without charge at, or obtained upon payment of prescribed fees from the Public Reference Section of the Securities and Exchange Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and will also be available for inspection and copying at the regional offices of the Securities and Exchange Commission located at 7 World Trade Center, 13th Floor, New York, New York 10048 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511 or by way of the Securities and Exchange Commission's website address, http://www.sec.gov. In addition, the Common Stock will be listed on the NYSE and similar information concerning the Company can be inspected and copied at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

Statements contained in this Prospectus as to the contents of any contract or other document which is filed as an exhibit to the Registration Statement are not necessarily complete, and each such statement is qualified in its entirety by reference to the full text of such contract or document.

The Company will be required to file reports and other information with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. The Company has changed its fiscal year end from October 31 to December 31, which change shall take effect with the fiscal year beginning on January 1, 1998. In addition to applicable legal or NYSE requirements, if any, holders of the Common Stock will receive annual reports containing audited financial statements with a report thereon by the Company's independent certified public accountants, and quarterly reports containing unaudited financial information for each of the first three quarters of each fiscal year. Following consummation of the Offering, holders of the Common Stock will receive such reports on a calendar year basis.

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INDEX TO FINANCIAL STATEMENTS

HISTORICAL COMBINED FINANCIAL STATEMENTS OF CAVANAUGHS HOSPITALITY CORPORATION, BARBIERI INVESTMENT COMPANY AND LINCOLN BUILDING LIMITED PARTNERSHIP:

Report of Independent Accountants..... F-2

Combined Balance Sheets at October 31, 1996 and 1997 and December 31, 1997..... F-3

Combined Statements of Operations for the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997..... F-4

Combined Statements of Changes in Stockholders' and Partners' Equity for the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1997..... F-5

Combined Statements of Cash Flows for the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997..... F-6

Notes to Combined Financial Statements..... F-7

PRO FORMA COMBINED FINANCIAL STATEMENTS:

Condensed Pro Forma Combined Financial Information..... F-22

Condensed Pro Forma Combined Balance Sheet at October 31, 1997..... F-23

Condensed Pro Forma Combined Statement of Income for the year ended October 31, 1997..... F-24

Notes to Condensed Pro Forma Combined Balance Sheet and Statement of Income..... F-25

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REPORT OF INDEPENDENT ACCOUNTANTS

Boards of Directors, Stockholders and Partners Cavanaughs Hospitality Corporation
Barbieri Investment Company
Lincoln Building Limited Partnership

We have audited the accompanying combined balance sheets of Cavanaughs Hospitality Corporation, Barbieri Investment Company and Lincoln Building Limited Partnership, excluding certain of their subsidiaries or divisions as described in Note 1 to the combined financial statements (collectively referred to as "Cavanaughs Hospitality Corporation" or the "Company"), as of October 31, 1996 and 1997 and December 31, 1997, and the related combined statements of operations, changes in stockholders' and partners' equity and cash flows for each of the three years in the period ended October 31, 1997 and the two months ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Company as of October 31, 1996 and 1997 and December 31, 1997, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1997 and the two months ended December 31, 1997, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Spokane, Washington
February 16, 1998

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CAVANAUGHS HOSPITALITY CORPORATION
BARBIERI INVESTMENT COMPANY
LINCOLN BUILDING LIMITED PARTNERSHIP
COMBINED BALANCE SHEETS
October 31, 1996 and 1997 and December 31, 1997
(in thousands, except share data)

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	OCTOBER 31,		DECEMBER 31,
	1996	1997	1997
ASSETS			
Current assets:			
Cash and cash equivalents	$ 7,200	$ 6,440	$ 4,955
Accounts receivable	1,720	2,806	2,785
Inventories	374	376	427
Prepaid expenses and deposits	395	1,128	1,100
Total current assets	9,689	10,750	9,267
Property and equipment, net	108,234	109,954	112,234
Other assets, net	2,164	3,400	3,616
Total assets	$120,087	$124,104	$125,117
LIABILITIES AND STOCKHOLDERS' AND PARTNERS' EQUITY			
Current liabilities:			
Payable to affiliate	$ --	$ 1,333	$ 1,133
Note payable to bank	--	--	1,075
Accounts payable	1,780	2,263	3,234
Accrued payroll and related benefits	830	843	983
Accrued interest payable	711	741	689
Other accrued expenses	2,764	3,618	2,882
Long-term debt, due within one year	10,086	4,285	3,590
Capital lease obligations, due within one year	423	499	502
Total current liabilities	16,594	13,582	14,088
Long-term debt, due after one year	86,450	93,771	94,419
Capital lease obligations, due after one year	2,349	2,255	2,139
Deferred income taxes	4,469	5,417	5,415
Minority interest in partnerships	612	553	524
Total liabilities	110,474	115,578	116,585
Commitments and contingencies (Notes 4, 10, 11 and 14)			
Stockholders' and partners' equity:			
Cavanaughs Hospitality Corporation:			
Preferred stock--1,424, 1,424 and 5,000,000 shares authorized, $450, $450 and $0.01 par value; 1,100, 1,100 and -0- shares issued and outstanding, liquidation value $495,000 at October 31, 1996 and 1997	495	495	--
Common stock--2,848, 2,848 and 50,000,000 shares authorized, $10, $10 and $0.01 par value; 1,858, 1,766 and 7,072,025 shares issued and outstanding	19	18	71
Discount on stock	(318)	(318)	--
Barbieri Investment Company:			
Common stock--1,000, 1,000 and -0- shares authorized, no par value; 929, 929 and -0- shares issued and outstanding	686	686	--
Partners' deficit	(796)	(897)	(879)
Additional paid-in capital	3,787	3,125	3,935
Retained earnings	5,740	5,417	5,405
Total stockholders' and partners' equity	9,613	8,526	8,532
Total liabilities and stockholders' and partners' equity	$120,087	$124,104	$125,117

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

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CAVANAUGHS HOSPITALITY CORPORATION
BARBIERI INVESTMENT COMPANY
LINCOLN BUILDING LIMITED PARTNERSHIP
COMBINED STATEMENTS OF OPERATIONS
for the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997
(in thousands, except per share data)

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	YEARS ENDED OCTOBER 31,			TWO MONTHS ENDED DECEMBER 31,	
	1995	1996	1997	1996	1997
				(UNAUDITED)	
Revenues:					
Hotels and restaurants:					
Rooms	$17,587	$20,972	$25,147	$2,998	$3,626
Food and beverage	12,397	12,141	13,926	2,271	2,756
Other	1,260	2,092	2,589	414	447
Total hotels and restaurants	31,244	35,205	41,662	5,683	6,829
Entertainment, management and services	3,092	3,168	3,842	483	840
Rental operations	6,027	6,790	6,539	1,191	1,169
Total revenues	40,363	45,163	52,043	7,357	8,838
Operating expenses:					
Direct:					
Hotels and restaurants:					
Rooms	4,931	5,719	6,820	958	1,167
Food and beverage	10,034	10,181	11,483	1,822	2,208
Other	716	1,008	1,066	149	170
Total hotels and restaurants	15,681	16,908	19,369	2,929	3,545
Entertainment, management and services	1,802	2,204	2,052	397	602
Rental operations	1,026	1,464	1,506	243	303
Total direct expenses	18,509	20,576	22,927	3,569	4,450
Undistributed operating expenses:					
Selling, general and administrative	5,426	6,461	8,188	1,161	1,225
Property operating costs	5,022	4,997	5,518	944	1,022
Depreciation and amortization	3,428	4,215	4,775	759	798
Total undistributed operating expenses	13,876	15,673	18,481	2,864	3,045
Total expenses	32,385	36,249	41,408	6,433	7,495
Operating income	7,978	8,914	10,635	924	1,343
Other income (expense):					
Interest expense, net of amounts capitalized	(6,866)	(7,319)	(8,817)	(1,317)	(1,422)
Interest income	439	296	416	92	54
Other income (expense)	--	150	348	13	(4)
Minority interest in partnerships	32	(136)	59	14	29
Income (loss) before income taxes	1,583	1,905	2,641	(274)	--
Income tax provision (benefit)	542	730	932	(104)	(6)
Net income (loss)	$ 1,041	$ 1,175	$ 1,709	$ (170)	$ (6)
Pro forma net income per share--basic and diluted			$ 0.24		
Number of shares used in the pro forma computation			7,072		

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

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CAVANAUGHS HOSPITALITY CORPORATION
BARBIERI INVESTMENT COMPANY
LINCOLN BUILDING LIMITED PARTNERSHIP
COMBINED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

for the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1997
(in thousands, except share and per share data)

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	CAVANAUGHS HOSPITALITY CORPORATION					BARBIERI INVESTMENT COMPANY				
	PREFERRED STOCK		COMMON STOCK			COMMON STOCK			ADDITIONAL	
	SHARES	AMOUNT	SHARES	AMOUNT	DISCOUNT ON STOCK	SHARES	AMOUNT	PARTNERS' DEFICIT	PAID-IN CAPITAL	RETAINED EARNINGS
BALANCES, OCTOBER 31, 1994	1,100	$495	1,877	$19	$(318)	929	$686	$(428)	$3,190	$1,411
Net income (loss)								(166)		1,207
Contributions from stockholders									600	2,496
Dividends on Cavanaughs Hospitality Corporation common stock ($85.00 per share)										(158)
Dividends on preferred stock ($31.50 per share)										(35)
Dividends on Barbieri Investment Company common stock ($85.00 per share)										(79)
Redemption of stock			(19)						(129)	
BALANCES, OCTOBER 31, 1995	1,100	495	1,858	19	(318)	929	686	(594)	3,661	4,842
Net income (loss)								(243)		1,418
Contributions from (distributions to) stockholders and partners								41	126	(248)
Dividends on Cavanaughs Hospitality Corporation common stock ($85.00 per share)										(158)
Dividends on preferred stock ($31.50 per share)										(35)
Dividends on Barbieri Investment Company common stock ($85.00 per share)										(79)
BALANCES, OCTOBER 31, 1996	1,100	495	1,858	19	(318)	929	686	(796)	3,787	5,740
Net income (loss)								(101)		1,810
Distributions to stockholders and partners										(1,815)
Dividends on Cavanaughs Hospitality Corporation common stock ($102.00 per share)										(188)
Dividends on preferred stock ($31.50 per share)										(35)
Dividends on Barbieri Investment Company common stock ($102.00 per share)										(95)
Redemption of stock			(92)	(1)					(662)	
BALANCES, OCTOBER 31, 1997	1,100	495	1,766	18	(318)	929	686	(897)	3,125	5,417
Net income (loss)								18		(12)
Effect of merger	(1,100)	(495)	7,070,259	53	318	(929)	(686)		810	
BALANCES, DECEMBER 31, 1997	0	$ 0	7,072,025	$71	$ 0	0	$ 0	$ 879	$3,935	$5,405

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

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CAVANAUGHS HOSPITALITY CORPORATION
BARBIERI INVESTMENT COMPANY
LINCOLN BUILDING LIMITED PARTNERSHIP
COMBINED STATEMENTS OF CASH FLOWS
for the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997
(in thousands)

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	YEARS ENDED OCTOBER 31,			TWO MONTHS ENDED DECEMBER 31,	
	1995	1996	1997	1996	1997
				(UNAUDITED)	
Operating activities:					
Net income (loss)	$ 1,041	$ 1,175	$ 1,709	$ (170)	$ 6
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	3,428	4,215	4,775	759	798
Gain on disposition of property and equipment	--	--	(322)	--	--
Deferred income tax provision (benefit)	(151)	89	948	--	(2)
Minority interest in partnerships	(32)	136	(59)	(14)	(29)
Change in:					
Accounts receivable	2	(356)	(1,086)	(675)	21
Inventories	25	(50)	(2)	15	(51)
Prepaid expenses and deposits	305	(64)	(733)	195	28
Accounts payable	(153)	(1,576)	483	(24)	971
Accrued payroll and related benefits	38	189	13	(248)	140
Accrued interest payable	99	21	30	(27)	(52)
Other accrued expenses	(1,016)	1,421	854	476	(736)
Net cash provided by operating activities	3,586	5,200	6,610	287	1,094
Investing activities:					
Additions to property and equipment	(24,124)	(13,457)	(6,192)	(1,589)	(2,400)
Proceeds from disposition of property and equipment	128	185	1,159	--	--
Payment for purchase option agreement	--	--	(500)	--	--
Other, net	(432)	88	(735)	66	(894)
Net cash used in investing activities	(24,428)	(13,184)	(6,268)	(1,523)	(3,294)
Financing activities:					
Capital contributions from stockholders and partners	3,096	--	--	--	--
Distributions to stockholders and partners	--	(122)	(1,815)	(353)	--
Dividends to stockholders	(272)	(272)	(318)	--	--
Proceeds from note payable to bank	--	--	--	--	1,075
Proceeds from long-term debt	21,853	34,735	10,559	7,595	2,982
Repayment of long-term debt	(4,389)	(24,844)	(9,539)	(7,435)	(3,029)
Purchase and retirement of common stock	(129)	--	(663)	--	--
Principal payments on lease obligations	(981)	(239)	(659)	(68)	(113)
Advances from (payments to) affiliate			1,222		

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

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CAVANAUGHS HOSPITALITY CORPORATION
BARBIERI INVESTMENT COMPANY
LINCOLN BUILDING LIMITED PARTNERSHIP
NOTES TO COMBINED FINANCIAL STATEMENTS
(Information for the two months ended December 31, 1996 is unaudited)

1. ORGANIZATION:

At October 31, 1997 and December 31, 1997, the Company controlled and operated (through ownership or lease with purchase option agreements) eight hotel properties in Seattle, Spokane, Yakima and Kennewick, Washington and Kalispell, Montana under its Cavanaughs(TM) brand. Additionally, the Company provides computerized ticketing for entertainment events and arranges Broadway and other entertainment event productions. 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 classified into three divisions: (1) hotels and restaurants,
(2) entertainment, management and services, and (3) rental operations.

The combined financial statements include the accounts (except as described below) of the following entities which are under common control through Barbieri family ownership.

. Cavanaughs Hospitality Corporation (CHC-Washington), a Washington corporation (formerly known as Goodale & Barbieri Companies until October 1997)

. Barbieri Investment Company (BIC)

. Lincoln Building Limited Partnership (Lincoln Building)

CHC-Washington and/or BIC have the following wholly owned subsidiary or partnership investments which are included in the combined financial statements.

. Cowley Street Limited Partnership (Cowley)

. Inn on Fifth Avenue Associates, L. P. (Inn on Fifth)

. West 201 North River Drive Limited Partnership (North River Drive Partnership)

. Kalispell Center Limited Partnership (KCLP)

. North River Drive Company

CHC-Washington is the sole general partner of all of the above partnerships. CHC-Washington and/or BIC hold all of the limited partnership units in all of the partnerships except for Cowley (which has a 50% limited partner). The Lincoln Building Limited Partnership is a partnership which was formed to operate a commercial office building. The partnership is comprised of the Barbieri Family Foundation (BFF) and four members of the Barbieri family. All partners are general partners of the partnership.

Unless otherwise defined, "the Company" refers to all of the above companies and partnerships collectively. All significant intercompany accounts and transactions have been eliminated in the combined financial statements.

In October 1997, Cavanaughs Hospitality Limited Partnership (CHLP), a Delaware partnership, was formed. CHLP was inactive at October 31, 1997.

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(Information for the two months ended December 31, 1996 is unaudited)

1. ORGANIZATION, CONTINUED:

In November 1997, the Company distributed certain of its operations (consisting of subsidiaries, partnership investments or divisions of the Company) to the existing stockholders as they were dissimilar to the predominant business of the Company. These operations consisted primarily of real estate development, a wholesale dairy processor and a long-term residence inn operation. These operations have historically been managed and financed autonomously, will be operated autonomously in the future and do not have material financial commitments, guarantees or contingent liabilities associated with the Company. Accordingly, these operations have been excluded from the combined financial statements for all periods presented. The effects of excluding the subsidiaries, investments or divisions are recorded as a contribution from or distribution to stockholders and partners.

In November 1997, BIC was merged into CHC-Washington, and the Company contributed all of its assets to CHLP in exchange for the general partnership interest (which holds a 1% interest in CHLP) and limited partnership interests. Operating units (OP Units) of CHLP will be issued to certain of the partners for their interest in the Lincoln Building. OP Units may also be used for future acquisitions (see Note 14). OP Units will be convertible to common stock of CHC-Washington on a one-for-one basis.

Effective December 31, 1997, the Company changed its fiscal year end from October 31 to December 31; therefore, the combined financial statements presented herein are audited as of and for the two months ended December 31, 1997 with comparative unaudited combined financial statements for the two months ended December 31, 1996.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

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

The Company maintains several trust accounts for owners of real properties which it manages. These cash accounts are not owned by the Company and therefore, are not included in the combined financial statements. At December 31, 1997, these accounts totaled approximately $2.1 million.

INVENTORIES

Inventories consist primarily of food and beverage products held for sale at the restaurants operated by the Company. Inventories are valued at the lower of cost, determined on a first-in, first-out basis, or net realizable value.

PROPERTY AND EQUIPMENT

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

Buildings	25-40 years
Equipment	5-20 years
Furniture and fixtures	15 years
Landscaping and land improvements	15 years

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Major additions and betterments are capitalized. Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. When items are disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is recognized in operations. Management of the Company periodically reviews the net carrying value of all properties to determine whether there has been a permanent impairment of value and assesses the need for any write-downs in carrying value.

INTEREST CAPITALIZATION

The Company capitalizes interest costs during the construction period for qualifying assets. During the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997, the Company capitalized approximately $459,000, $1,412,000, $6,000, $12,000 and $17,000 of interest costs, respectively.

OTHER ASSETS

Other assets primarily include deferred loan fees, deferred stock offering costs, purchase option payments and prepaid rental income. Deferred loan fees are amortized using the interest method over the term of the related loan agreement. Costs incurred in connection with the Company's planned common stock offering (the Offering-- see Note 15) are deferred and will be offset against the proceeds of the offering, if successful. If the offering is unsuccessful, the costs will be charged to operations. At October 31, 1997 and December 31, 1997, the Company has deferred purchase option payments made pursuant to a purchase agreement for a hotel property which is currently being leased and operated by the Company (see Note 10). If the option is exercised, the option payments will offset a portion of the purchase price. If the option is not exercised, the option payments will be charged to operations.

INCOME TAXES

Prior to their merger, CHC-Washington and BIC filed separate federal and state income tax returns. The Lincoln Building and the other partnerships which are owned by CHC-Washington and/or BIC are not tax paying entities. However, the income tax attributes of these partnerships flow through to the respective partners of the partnerships.

LEASE INCOME

The Company records 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 combined balance sheets. Rental income from retail lessees which is contingent upon the lessees' revenues is recorded as income in the period earned.

EARNINGS PER SHARE

Due to the combination of the companies and partnerships, historical earnings per share information prior to the combination is not relevant or meaningful. Therefore, pro forma earnings per share for the year ended October 31, 1997 has been presented based upon the number of common shares of CHC- Washington which are outstanding after the merger of the companies and partnerships (see Note 15).

In February 1997, Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," was issued. SFAS No. 128 establishes standards for computing and presenting earnings per share (EPS) and simplifies the existing standards. This standard replaces the presentation of primary EPS with a presentation of basic EPS. It also requires the dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. The Company did not

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(Information for the two months ended December 31, 1996 is unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

have any dilutive securities outstanding for any of the periods presented. Therefore, there are no differences between basic and diluted earnings per share. The adoption of SFAS No. 128 did not have a material effect on the presentation of the Company's EPS for the two months ended December 31, 1997.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, SFAS No. 130, "Reporting Comprehensive Income", was issued. This Statement requires that comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This Statement does not require a specific format for the financial statement, but requires that an enterprise display net income as a component of comprehensive income in the financial statement. Comprehensive income is defined as the change in equity of a business enterprise arising from non-owner sources. The classifications of comprehensive income under current accounting standards include foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities. This Statement is effective for fiscal years beginning after December 15, 1997. Management does not believe that the implementation of SFAS No. 130 will have a material impact on the presentation of its combined financial statements.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments for an Enterprise and Related Information". This Statement will change the way public companies report information about segments of their business in their annual financial statements and requires them to report selected segment information in their quarterly reports issued to shareholders. It also requires entity-wide disclosures about the products and services an entity provides, and its major customers. The Statement is effective for fiscal years beginning after December 15, 1997. Management of the Company does not believe that the implementation of SFAS No. 131 will have a material impact on the combined financial statements.

ESTIMATES

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

3. PROPERTY AND EQUIPMENT:

Property and equipment at October 31, 1996 and 1997 and December 31, 1997 is summarized as follows (in thousands):

	OCTOBER 31,		DECEMBER 31,
	1996	1997	1997
Buildings and equipment	$ 105,039	$108,507	$110,812
Furniture and fixtures	11,150	14,163	14,258
Equipment acquired under capital leases	4,421	4,543	4,543
Landscaping and land improvements	863	863	863
	121,473	128,076	130,476
Less accumulated depreciation and amortization	(30,049)	(34,325)	(34,445)
	91,424	93,751	96,031
Land	16,810	16,203	16,203
	$ 108,234	$109,954	$112,234

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4. LONG-TERM DEBT:

Long-term debt consists of mortgage notes payable and notes and contracts payable, collateralized by real property, equipment and the assignment of certain rental income. Long-term debt as of October 31, 1997 and December 31, 1997 is as follows (amounts outstanding in thousands):

	OCTOBER 31, 1997	DECEMBER 31, 1997
Note payable in monthly installments of $146,494 including interest at a variable rate (9.0% at October 31, 1997 and December 31, 1997), collateralized by real property	$16,816	$16,776
Note payable in monthly installments of $117,487 including interest at a variable rate (9.0% at October 31, 1997 and December 31, 1997), collateralized by real property	13,884	13,857
Note payable in monthly installments of $79,828 including interest at 7.25%, collateralized by real property	9,785	9,744
Note payable in monthly installments of $85,156 including interest at a variable rate (8.125% at October 31, 1997 and December 31, 1997), collateralized by real property	9,083	9,038
Note payable in monthly installments of $64,637 including interest at a variable rate (7.88% at October 31, 1997 and December 31, 1997), collateralized by assignment of certain rental income	7,773	7,746
Industrial revenue bonds payable in monthly installments of $73,668 including interest at a variable rate (7.65% at October 31, 1997 and December 31, 1997), collateralized by real property	7,555	7,504
Note payable in monthly installments of $63,378 at October 31, 1997 and $65,393 at December 31, 1997, including interest at a variable rate (10.375% at October 31, 1997 and 9.5% at December 31, 1997), collateralized by real property	7,128	7,110
Note payable in monthly installments of $46,369 including interest at 8.875%, collateralized by real property	5,046	5,029
Note payable in monthly installments of $56,875 including interest at a variable rate (9.0% at October 31, 1997 and December 31, 1997), collateralized by real property	4,794	4,775
Note payable in monthly installments of $23,804 including interest at 8.5% at December 31, 1997, collateralized by real property, assignment of certain rental income and certain furniture and fixtures	--	2,660
Urban Development Action Grant loan payable in monthly installments of $27,807 including interest at 9.0%, collateralized by real property (A)	2,603	--
Note payable in monthly installments of $25,777 including interest at 9.25%, collateralized by real property	2,412	2,397

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4. LONG-TERM DEBT, CONTINUED:

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	OCTOBER 31, 1997	DECEMBER 31, 1997
Note payable in monthly installments of $37,604 including interest at an index rate plus 2.375% (8.66% at October 31, 1997 and December 31, 1997), collateralized by real property.....	$ 2,292	$ 2,250
Note payable in monthly installments of $17,608 at October 31, 1997 and $19,702 at December 31, 1997, including interest at a variable rate (8.5% at October 31, 1997 and December 31, 1997), collateralized by real property.....	2,151	2,467
Note payable in monthly installments of $18,418 at October 31, 1997 and $18,845 at December 31, 1997, including interest at an index rate plus 1.5%, subject to a minimum of 9.5% and a maximum of 12.0% (9.75% at October 31, 1997 and 10.0% at December 31, 1997), collateralized by real property.....	1,696	1,687
Note payable in monthly installments of $22,702 including interest at a variable rate (9.5% at October 31, 1997 and December 31, 1997), collateralized by real property.....	1,190	1,164
Note payable in monthly installments of $41,674 including interest at a variable rate plus 0.5% (9.0% at October 31, 1997 and December 31, 1997), collateralized by real property.....	1,091	1,072
Note payable in monthly installments of $9,076 at October 31, 1997 and December 31, 1997, including interest at a variable rate (9.5% at October 31, 1997 and December 31, 1997), collateralized by certain equipment and furniture and fixtures.....	760	754
Amount payable at $67,000 interest only annually (B).....	600	600
Note payable of interest only at 8.0% until maturity in October 2002, collateralized by letter of credit.....	500	500
Note payable in monthly installments of $9,000 including interest at an index rate (8.5% at October 31, 1997 and December 31, 1997), collateralized by real property.....	462	451
Note payable in monthly installments of $5,003 including interest at prime plus 1.0% (9.0% at October 31, 1997 and December 31, 1997), collateralized by real property.....	238	231
Note payable of interest only at 6.4% until maturity in June 1998, collateralized by a certificate of deposit.....	100	100
Note payable in annual principal payments of $37,000 plus interest at a variable rate (9.0% at October 31, 1997 and December 31, 1997), collateralized by real property.....	74	74
Other.....	23	23
	98,056	98,009
Less current portion.....	(4,285)	(3,590)
Total long-term debt.....	$93,771	$94,419

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4. LONG-TERM DEBT, CONTINUED:

(A) This loan agreement requires the City of Kalispell, Montana (the City) to receive 15% of cumulative annual net cash flow (as defined in the agreement) from the property until the loan is paid in full. The cumulative net cash flow of the property resulted in participation by the City of approximately $20,000, $45,000 and $22,000 for the years ended October 31, 1995, 1996 and 1997, respectively. The Company repaid this note in full in December 1997.

(B) The Company has a $600,000 obligation payable to BFF. BFF is entitled to a guaranteed annual payment of approximately $67,000, which is increased by 3% annually. The Company has the right to pay off its obligation at any time after January 1997, and BFF has the right to require redemption at any time after January 1999.

Contractual maturities for long-term debt outstanding at December 31, 1997, are summarized by year as follows (in thousands):

YEARS ENDING DECEMBER 31,	
1998	$ 3,590
1999	3,908
2000	3,252
2001	3,331
2002	4,089
Thereafter	79,839
	$98,009

5. CAPITAL LEASE OBLIGATIONS:

The Company leases certain equipment under capital leases. The imputed interest rates on the leases range from 7.6% to 8.6%. Cost and accumulated amortization of this equipment as of October 31, 1996 are approximately $4,421,000 and $1,831,000, respectively. Cost and accumulated amortization of equipment under capital lease obligations as of October 31, 1997 are approximately $4,543,000 and $2,074,000, respectively. Cost and accumulated amortization of equipment under capital lease obligations as of December 31, 1997 are approximately $4,543,000 and $2,065,000, respectively.

Future minimum lease payments at December 31, 1997 are as follows (in thousands):

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YEARS ENDING DECEMBER 31,	
1998	$ 706
1999	696
2000	661
2001	513
2002	400
Thereafter	270
Total minimum lease payments	3,246
Less amount representing interest	(605)
Total obligations under capital lease	2,641
Less current maturities	(502)
	$2,139

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(Information for the two months ended December 31, 1996 is unaudited)

6. LINES OF CREDIT:

At October 31, 1997, the Company had a $1.0 million line-of-credit agreement with U.S. Bank of Washington. The outstanding balance on the unsecured credit line bears interest at the bank's prime rate plus 0.25% (8.75% at December 31, 1997). At October 31, 1997, there were no amounts outstanding on the line of credit. In November 1997, the borrowing limit under this agreement was increased to $3.0 million and expires in March 1998. At December 31, 1997, there was $1,075,000 outstanding on the line of credit. The agreement requires that the Company maintain a defined current ratio and minimum levels of cash flow.

Additionally, the Company has a non-revolving line-of-credit agreement. Any outstanding amounts bear interest at the bank's index rate plus 2.75%. At October 31, 1997, $9,083,000 was outstanding under this agreement (see Note 4) and $670,000 was available to be drawn. At December 31, 1997, $9,038,000 was outstanding under this agreement, and $670,000 was available to be drawn.

In December 1997, the Company obtained a commitment for a revolving secured credit facility with a bank for borrowings up to $80.0 million. The credit facility is contingent upon the successful completion of the Offering. The agreement requires that the Company maintain certain financial ratios and minimum levels of cash flows. Any outstanding borrowings will bear interest based on prime rate or LIBOR. The credit facility matures five years after closing.

7. STOCKHOLDERS' EQUITY:

Prior to the merger described in Note 1, the preferred stock of CHC- Washington was the only voting stock of CHC-Washington. The preferred stockholders were entitled to 7% annual, noncumulative dividends if and when declared by the Board of Directors. In the event of liquidation or dissolution of CHC-Washington, the preferred stockholders had a liquidation preference equal to $450 plus any unpaid dividends per share. At October 31, 1997, all declared dividends had been paid to the preferred stockholders. In connection with the merger and changes in the capital structure of CHC-Washington (see Note 15), the outstanding preferred stock of CHC-Washington was retired and cancelled.

In January 1998, the Board of Directors adopted, subject to shareholder approval, two Company stock benefit plans. A total of 1,500,000 shares of common stock were reserved for issuance or grant under the plans of which up to 900,000 shares are planned to be granted to certain employees at the initial public offering price concurrent with the closing of the Offering.

8. INCOME TAXES:

Major components of the Company's income tax provision (benefit) for the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997 are as follows (in thousands):

	YEARS ENDED OCTOBER 31,			TWO MONTHS ENDED DECEMBER 31,	
	1995	1996	1997	1996	1997
Current.....	$ 693	$641	$(16)	$ (104)	$ (4)
Deferred.....	(151)	89	948		(2)
	$ 542	$730	$932	$ (104)	$ (6)

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(Information for the two months ended December 31, 1996 is unaudited)

8. INCOME TAXES, CONTINUED:

The income tax provisions (benefits) shown in the statements of operations for the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997 differ from the amounts calculated using the federal statutory rate applied to income (loss) before income taxes as follows (amounts in thousands):

	YEARS ENDED OCTOBER 31,						TWO MONTHS ENDED DECEMBER 31,			
	1995		1996		1997		1996		1997	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
Provision (benefit) at federal statutory rate	$ 538	34.0%	$648	34.0%	$898	34.0%	$ 93	34.0%	--	--
Effect of tax credits	(64)	(4.0)	--	--	(20)	(0.7)	--	--	--	--
Other	68	4.2	82	4.3	54	2.0	11	4.0	(6)	--
	$ 542	34.2%	$730	38.3%	$932	35.3%	$(104)	38.0%	$(6)	--

Components of the net deferred tax assets and liabilities as of October 31, 1996 and 1997 and December 31, 1997 are as follows (in thousands):

	OCTOBER 31,				DECEMBER 31,	
	1996		1997		1997	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Depreciation on property and equipment	$ --	$5,331	$ --	$5,295	$ --	$5,612
Rental income	--	192	--	248	--	285
Tax credits	577	--	367	--	367	--
Other	477	--	--	241	115	--
	$ 1,054	$5,523	$367	$5,784	$482	$5,897

At October 31, 1997 and December 31, 1997, the Company has approximately $352,000 of alternative minimum tax credits available to offset future regular taxes payable to the extent they exceed alternative minimum taxes.

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9. OPERATING LEASE INCOME:

KCLP leases shopping mall space to various tenants over terms ranging from one to ten years. The leases generally provide for fixed minimum monthly rent as well as tenants' payments for their pro rata share of taxes and insurance, common area maintenance and expenses associated with the shopping mall. In addition, the Company leases commercial office space over terms ranging from one to eighteen years. At October 31, 1996, cost and accumulated depreciation of retail and commercial properties which are subject to operating leases was $31,008,000 and $7,191,000, respectively. The cost and accumulated depreciation of these properties at October 31, 1997 was approximately $31,875,000 and $8,281,000, respectively. The cost and accumulated depreciation of these properties at December 31, 1997 was approximately $32,924,000 and $8,323,000, respectively.

Future minimum lease income under existing noncancellable leases at December 31, 1997 is as follows (in thousands):

YEARS ENDING DECEMBER 31,	
1998	$ 6,903
1999	6,647
2000	6,116
2001	5,140
2002	4,275
Thereafter	15,601
	$44,682

Rental income for the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997 was approximately $6,027,000, $6,790,000, $6,539,000, $1,191,000 and $1,169,000, respectively, which included contingent rents of approximately $309,000, $342,000, $217,000, $58,000 and $93,000, respectively.

10. OPERATING LEASE COMMITMENTS:

The Company leases building space under an operating lease agreement which requires monthly payments of $4,500 through March 2009. Commencing in 1999, the monthly payments can be increased for inflation.

In October 1997, the Company began operating a hotel in Yakima, Washington under an operating lease and purchase option agreement. The lease agreement is for a period of 15 years with two five-year renewal options. The Company pays all operating costs of the hotel plus monthly lease payments of $35,000 through September 2003. Commencing October 2003, the monthly lease requirement will be $52,083 and monthly payments shall increase by $5,208 each year thereafter. The Company agreed to a $1.0 million option payment which allows the purchase of this hotel at a fixed price. One-half of this option payment was paid in cash and the remaining $500,000 is payable in October 2002. The option is exercisable by the Company between March and September 2003 for a total purchase price of $6,250,000. If the Company exercises its purchase option, the option payments made by the Company will be applied against the total purchase price.

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10. OPERATING LEASE COMMITMENTS, CONTINUED:

Assuming the Company exercises its purchase option for the hotel in March 2003, total payments due under these leases at December 31, 1997 are as follows (in thousands):

YEARS ENDING DECEMBER 31,	
1998	$ 474
1999	474
2000	474
2001	474
2002	474
Thereafter	443
	$2,813

11. COMMITMENTS AND CONTINGENCIES:

Until January 1998, the Company guaranteed certain debt of entities affiliated through common ownership, which are excluded from the combined financial statements (see Note 1). At October 31, 1997 and December 31, 1997, total debt outstanding which was guaranteed by the Company was approximately $5,748,000 and $5,092,000, respectively. In January 1998, the Company's guarantee of these affiliated companies' debt was eliminated.

In 1994, the Company was sued by the contractor who constructed one of the Company's hotel properties asserting lack of payment of cost overruns. The Company filed a counter claim for the recovery of various damages. The Company obtained summary judgment for most of the claims. As of December 31, 1997, the amount of claims against the Company which have not been dismissed or are subject to appeal is $233,000, plus interest. The Company's counter claims which have not been dismissed are $419,000. Management believes that the ultimate resolution of this matter will not have a material effect on the Company's results of operations, financial condition or cash flows.

12. RELATED-PARTY TRANSACTIONS:

In addition to related-party transactions described in Notes 4 and 11, the Company had the following transactions with related parties during the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997:

. Interest expense of approximately $64,000, $66,000, $67,000, $11,000 and $11,000 was incurred related to the payable to BFF (see Note 4) for the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997, respectively.

. The Company recorded management fee and other income of approximately $27,000, $31,000, $35,000, $8,000 and $17,000 during the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997, respectively, for performing management and administrative functions for entities which are owned by the stockholders of the Company, but are excluded from the combined financial statements.

. The Company received commissions for real estate sales from entities which are owned by the stockholders of the Company, but are excluded from the combined financial statements of $51,000, $7,000, $87,000, $3,000 and $1,000 for the years ended October 31, 1995, 1996 and 1997

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and the two months ended December 31, 1996 and 1997, respectively.

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(Information for the two months ended December 31, 1996 is unaudited)

12. RELATED-PARTY TRANSACTIONS, CONTINUED:

. At October 31, 1997, the Company had a $1,333,000 payable to an affiliated entity due to common control. Effective November 1, 1997, the payable began bearing interest at the prime rate (8.5% at December 31, 1997). During the two months ended December 31, 1997, the Company incurred $16,000 of interest expense associated with this note. At December 31, 1997, there was $1,133,000 outstanding on this note. The note is due in July 1998.

13. EMPLOYEE BENEFIT PLAN:

The Goodale and Barbieri Retirement Savings Plan, to which both the Company and employees contribute, was established in March 1989. The defined contribution plan was created for the benefit of substantially all employees of the Company. The Company makes contributions of up to 3% of an employee's compensation based on a vesting schedule and eligibility requirements set forth in the plan document. Company contributions to the plan for the years ended October 31, 1995, 1996 and 1997 and the two months ended December 31, 1996 and 1997 were approximately $78,000, $93,000, $97,000, $18,000 and $20,000, respectively.

14. ACQUISITIONS:

In October 1997, the Company entered into a lease (which was effective in January 1998) with purchase option for an operating hotel in Spokane, Washington. The Company is obligated to pay debt service and all costs of operating the hotel through the lease termination date of November 1, 1999. The Company intends to exercise its option to purchase this hotel prior to July 1998. The purchase price is $11,500,000. Approximately $2,000,000 of the purchase price shall be paid by the transfer of OP Units to the owner.

In November 1997, CHLP entered into separate purchase agreements to acquire certain assets of operating hotels in Post Falls, Idaho and in Idaho Falls, Idaho for a total purchase price of $13,000,000. The Idaho Falls acquisition was closed in January 1998 and the Post Falls acquisition closed in February 1998.

In December 1997, the Company entered into an agreement for the acquisition of an operating hotel in Kalispell, Montana. The acquisition is contingent upon the Company's successful completion of the Offering. The purchase price is $9,800,000.

In January, 1998, the Company entered into an agreement to acquire an operating hotel in Portland, Oregon for a total purchase price of $5,650,000. The transaction is scheduled to close in March 1998.

15. CAPITALIZATION OF THE COMPANY AND PROPOSED INITIAL PUBLIC OFFERING:

After the mergers described in Note 1 were completed, the Articles of Incorporation of CHC-Washington were amended to authorize 50.0 million common shares and 5.0 million preferred shares. The preferred stock rights, preferences and privileges will be determined by the Board of Directors. The existing stockholders of CHC-Washington and BIC received a total of 7,072,025 newly issued shares in exchange for all of their outstanding shares. CHC- Washington intends to enter into an underwriting agreement with CIBC Oppenheimer Corp. for the sale of 5,175,000 shares of the Company's common stock.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

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16. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value. Potential income tax ramifications related to the realization of unrealized gains and losses that would be incurred in an actual sale or settlement have not been taken into consideration.

The carrying amounts for cash and cash equivalents, accounts receivable and current liabilities are a reasonable estimate of their fair values. The fair values of long-term debt and capital lease obligations are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for debt or capital lease obligations with similar remaining maturities.

The estimated fair values of financial instruments are as follows (in thousands):

	OCTOBER 31,				DECEMBER 31	
	1996		1997		1997	
	CARRYING AMOUNTS	FAIR VALUES	CARRYING AMOUNTS	FAIR VALUES	CARRYING AMOUNTS	FAIR VALUES
Financial assets:						
Cash and cash equivalents....	$7,200	$7,200	$6,440	$6,440	$4,955	$4,955
Accounts receivable.....	1,720	1,720	2,806	2,806	2,785	2,785
Financial liabilities:						
Current liabilities, excluding debt.....	6,085	6,085	8,798	8,798	8,921	8,921
Note payable to bank.....	--	--	--	--	1,075	1,075
Long-term debt.....	96,536	97,764	98,056	99,615	98,009	99,776
Capital lease obligations....	2,772	2,772	2,754	2,754	2,641	2,641

17. BUSINESS SEGMENTS (IN THOUSANDS):

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	OCTOBER 31,			DECEMBER 31,	
	1995	1996	1997	1996	1997
Revenues:					
Hotels and restaurants.....	$ 31,244	$35,205	$41,662	$5,683	$6,829
Entertainment, management and services.....	3,092	3,168	3,842	483	840
Rental operations.....	6,027	6,790	6,539	1,191	1,169
	$ 40,363	$45,163	$52,043	$7,357	$8,838
Operating income:					
Hotels and restaurants.....	$ 15,563	$18,297	$22,293	$2,754	$3,284
Entertainment, management and services.....	1,290	964	1,790	86	238
Rental operations.....	5,001	5,326	5,033	948	866
Undistributed operating expenses.....	(13,876)	(15,673)	(18,481)	(2,864)	(3,045)
	$ 7,978	$ 8,914	$10,635	$ 924	$1,343

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(Information for the two months ended December 31, 1996 is unaudited)

17. BUSINESS SEGMENTS (IN THOUSANDS), CONTINUED:

	OCTOBER 31,			DECEMBER 31,	
	1995	1996	1997	1996	1997
Capital expenditures:					
Hotels and restaurants	$ 20,439	$ 11,705	$ 4,960	$ 1,407	$ 1,322
Rental operations	3,536	1,631	980	150	1,060
General corporate, including entertainment, management and services	149	121	252	32	18
	$ 24,124	$ 13,457	$ 6,192	$ 1,589	$ 2,400
Depreciation and amortization:					
Hotels and restaurants	$ 2,274	$ 2,840	$ 3,457	$ 573	$ 581
Rental operations	1,005	1,210	1,179	172	188
General corporate, including entertainment, management and services	149	165	139	14	29
	$ 3,428	$ 4,215	$ 4,775	$ 759	$ 798
Identifiable assets:					
Hotels and restaurants	$ 77,310	$ 90,345	$ 91,431	$ 89,591	$ 92,415
Rental operations	24,155	24,049	24,035	24,645	25,965
General corporate, including entertainment, management and services	5,577	5,693	8,638	5,705	6,737
	$ 107,042	$120,087	$124,104	$119,941	$125,117

Revenues and identifiable assets of each segment are those that are directly identified with those operations. Capital expenditures and identifiable assets for the entertainment, management and services segment are not separated from corporate. General corporate assets consist primarily of cash and cash equivalents, receivables and certain property and equipment. 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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18. EARNINGS PER SHARE:

In accordance with SFAS No. 128, 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).

	NET INCOME (LOSS) (NUMERATOR)	WEIGHTED-AVERAGE SHARES (DENOMINATOR)	PER SHARE AMOUNT
DECEMBER 31, 1997:			
Net income per share--basic and diluted:			
Net income	$ 6		
Weighted average shares outstanding		7,072	
Per share			$nil

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(Information for the two months ended December 31, 1996 is unaudited)

18. EARNINGS PER SHARE, CONTINUED:

	NET INCOME (LOSS) (NUMERATOR)	WEIGHTED-AVERAGE SHARES (DENOMINATOR)	PER SHARE AMOUNT
OCTOBER 31, 1997:			
Net income per share--basic and diluted:			
Net income	$1,709		
Weighted average shares outstanding		7,072	
Per share			$0.24

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CONDENSED PRO FORMA COMBINED FINANCIAL INFORMATION

The following condensed pro forma combined balance sheet and condensed pro forma combined statement of income, collectively, the "Pro Forma Financial Statements" were prepared by Cavanaughs Hospitality Corporation to illustrate the estimated effects of (i) the merger of the companies and partnerships which occurred in November 1997, (ii) acquiring minority interests through the issuance of common stock, and OP Units, and (iii) business combinations to be accounted for as purchases under generally accepted accounting principles. The acquisitions include the property and equipment of the following hotel properties:

. Templin's Resort (Templin's)

. Outlaw Inn (Outlaw)

. Inn on the Falls

. The Ridpath Hotel (Ridpath)

. Hallmark Inn (Hallmark)

Additionally, in October 1997, Cavanaughs Hospitality Corporation entered into a lease with purchase option agreement for the Gateway Hotel (Gateway). Therefore, the historical results of operations of Gateway are included in the condensed pro forma combined financial information. Templin's, Outlaw, Inn on the Falls, Ridpath, Gateway and Hallmark are collectively referred to as the "Acquired Hotels." Accordingly, the financial information of Cavanaughs Hospitality Corporation, Barbieri Investment Company and Lincoln Building Limited Partnership (collectively, "CHC" or "the Company") and the Acquired Hotels has been combined as if the acquisitions occurred on November 1, 1996 for purposes of the condensed pro forma combined statement of income, and as of October 31, 1997, for purposes of the condensed pro forma combined balance sheet. There are no differences between CHC's and the Acquired Hotel's accounting policies, which are expected to have a material impact on the pro forma combined financial statements. The Pro Forma Financial Statements do not purport to represent what the combined financial position or results of operations would have been if the acquisitions had occurred at the beginning of the period or to project the combined financial position or results of operations for any future date or period.

The Pro Forma Financial Statements should be read in conjunction with the historical combined financial statements, including the notes thereto, of CHC, which are included in this document.

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

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CONDENSED PRO FORMA COMBINED BALANCE SHEETS
at October 31, 1997
(in thousands, except for share data)

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	CHC HISTORICAL	ACQUIRED HOTELS HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
ASSETS				
Current assets:				
Cash and cash equivalents...	$ 6,440	$ --	$ (6,440)(a)	$ --
Accounts receivable.....	2,806	--	--	2,806
Inventories.....	376	--	--	376
Prepaid expenses and depos- its.....	1,128	--	--	1,128
Total current assets.....	10,750	--	(6,440)	4,310
Property and equipment, net...	109,954	20,478	19,772 (b)	150,204
Other assets, net.....	3,400	--	--	3,400
Total assets.....	$124,104	$20,478	$ 13,332	$157,914
LIABILITIES, STOCKHOLDERS' AND PARTNERS' EQUITY				
Current liabilities:				
Payable to affiliates.....	$ 1,333	$ --	$ --	$ 1,333
Accounts payable.....	2,263	--	--	2,263
Accrued payroll and related benefits.....	843	--	--	843
Accrued interest payable....	741	--	--	741
Other accrued expenses.....	3,618	--	--	3,618
Long-term debt, due within one year.....	4,285	--	--	4,285
Capital lease obligations, due within one year.....	499	--	--	499
Total current liabili- ties.....	13,582	--	--	13,582
Long-term debt, due after one year.....	93,771	--	31,810 (c)	125,581
Capital lease obligations, due after one year.....	2,255	--	--	2,255
Deferred income taxes.....	5,417	--	--	5,417
Minority interest.....	553	--	2,000 (d)	2,553
Total liabilities.	115,578	--	33,810	149,388
Stockholders'and Partners' eq- uity:				

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

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CONDENSED PRO FORMA COMBINED STATEMENT OF INCOME

for the year ended October 31, 1997

(in thousands, except per share data)

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	CHC HISTORICAL	ACQUIRED HOTELS HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
Revenues:				
Hotels and restaurants:				
Rooms	$25,147	$14,662	$ --	$ 39,809
Food and beverage	13,926	9,621	--	23,547
Other	2,589	1,056	--	3,645
Total hotels and restaurants	41,662	25,339	--	67,001
Entertainment, management and services	3,842	--	--	3,842
Rental operations	6,539	--	--	6,539
Total revenues	52,043	25,339	--	77,382
Operating expenses:				
Direct:				
Hotels and restaurants:				
Rooms	6,820	4,600	--	11,420
Food and beverage	11,483	7,829	--	19,312
Other	1,066	343	--	1,409
Total hotels and restaurants	19,369	12,772		32,141
Entertainment, management and services	2,052	--	--	2,052
Rental operations	1,506	--	--	1,506
Total direct expenses	22,927	12,772		35,699
Undistributed operating expenses:				
Selling, general and administrative	8,188	4,653	(743)(f)}	
Selling, general and administrative	--	--	146 (g)}	12,244
Property operating costs	5,518	3,353	312 (h)}	9,183
Depreciation and amortization	--	--	(495)(j)}	5,888
Total undistributed operating expenses	18,481	9,831	(997)	27,315
Total expenses	41,408	22,603	(997)	63,014
Operating income	10,635	2,736	997	14,368
Other income (expense):				
Depreciation and amortization	4,775	1,825	(217)(i)	
Interest income	416	--	--	416
Other income	348	--	--	348
Minority interest in partnerships	59	--	(185)(m)	
(126)				
Income before income taxes	2,641	181	1,008	3,830
Income tax provision	932	61	406 (n)	1,399
Net income	$ 1,709	$ 120	$ 602	$ 2,431
Pro forma net income per share	$ 0.24			$ 0.34
Number of shares used in the pro forma computation	7,072			7,095

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Interest expense, net of amounts capitalized.....	(8,817)	(2,555)	2,555	(k)
Interest expense, net of amounts capitalized.....			(2,359)	(l)
(11,176)				

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

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NOTES TO CONDENSED PRO FORMA COMBINED BALANCE SHEET AND STATEMENT OF INCOME

1. BUSINESSES ACQUIRED:

Subsequent to October 31, 1997, the Company has entered into agreements to purchase the real and personal property and equipment of the following hotel properties:

.Templin's Resort

.Outlaw Inn

.Inn on the Falls

.The Ridpath Hotel

.Hallmark Inn

The agreement with the Ridpath Hotel is a lease with purchase option which can be exercised at anytime. The Company intends to exercise the purchase option prior to June 1998 and therefore has included the financial information of the Ridpath in these pro forma financial statements assuming the purchase option is exercised. Additionally, the Company has entered into a lease with purchase option agreement with the owner of the Gateway Hotel. The purchase option cannot be exercised by the Company until 2003 and therefore, the acquisition of the property and equipment of the Gateway Hotel has not been assumed in the pro forma balance sheet. However, the pro forma statement of income reflects the lease expense associated with the Gateway Hotel along with its historical operations. The acquisitions will be accounted for utilizing the purchase method of accounting. The purchase price for all of the acquired hotels will be paid in cash except for the Ridpath. The purchase price for the Ridpath assumes that the purchase option is exercised prior to July 1998 and that $2.0 million of the purchase price is satisfied by the issuance of OP Units (see Note 14 to the historical financial statements of the Company).

The total purchase price and the amount in excess of the historical book value of the property and equipment are as follows (in thousands):

PURCHASE	TOTAL PURCHASE PRICE	EXCESS PRICE
Templin's Resort	$ 9,500	$ 5,376
Outlaw Inn	9,800	5,477
Inn on the Falls	3,800	259
The Ridpath Hotel	11,500	4,587
Hallmark Inn	5,650	4,073
	$40,250	$19,772

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

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DEPRECIABLE	AMOUNT	LIFE
Land	$11,795	
Building	25,824	35 years
Furniture and fixtures	2,631	10 years
	$40,250	

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1. BUSINESSES ACQUIRED, CONTINUED:

The historical depreciation expense for the Acquired Hotels was calculated using depreciable lives for certain assets that are commonly used for income tax purposes. The pro forma adjustments include $495,000 to reduce the historical depreciation expense to an estimated amount which would have been reported if the useful lives of the assets were in accordance with industry practice and generally accepted accounting principals (GAAP). Since the acquisitions will be accounted for under the purchase method of accounting, the excess purchase price over the historical net book value of the property and equipment will be attributed to the property and equipment and depreciated over the estimated remaining useful lives of the acquired assets.

2. PRO FORMA ADJUSTMENTS:

The following pro forma adjustments were made to the condensed pro forma combined balance sheet and statement of income to reflect the acquisitions of the Acquired Hotels and the issuance of common stock and OP Units for the acquisition of minority interests in the Lincoln Building.

(a) Represents the cash to be used for the purchase of the Acquired Hotels.

(b) Represents the purchase price in excess of the historical value of the property and equipment of the Acquired Hotels.

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

(d) Assumes the purchase price of the Ridpath will be $9.5 million cash plus OP Units equivalent to $2.0 million.

(e) The historical financial statements of the Lincoln Building Limited Partnership (Lincoln Building) are included in the combined CHC historical financial statements as they are all entities under common control (see Note 1 to the historical combined financial statements). In January 1998, the Company issued 12,228 shares of common stock and 150,817 OP Units to the Lincoln Building partners in exchange for their partnership interests in the Lincoln Building. The acquisition of the Lincoln Building has been accounted for as if it were a pooling of interests due to common control of the entities. The partners' deficit has been reclassified to additional paid-in capital as a pro forma adjustment.

(f) The Gateway and Inn on the Falls were previously Holiday Inn franchises. The franchises will be terminated by the Company. Therefore, the franchise fees which were based on gross room revenues have been eliminated as a pro forma adjustment.

(g) Represents the maximum potential increase in management compensation expense as a result of the planned new employment agreements as described herein as compared to historical compensation levels. The employment agreements will provide for bonuses up to a maximum of 100% of the executive's base salary.

(h) The historical financial statements of the Ridpath included an equipment lease expense of $108,000 per year. However, this equipment is a capital lease and the expense should not have been recorded as an operating lease. Therefore, the pro forma adjustment eliminates this lease payment. Additionally, the Company has leased the Gateway for $420,000 annually. This facility lease expense is not recorded in the historical financial statements of Gateway and therefore, has been included as a pro forma adjustment.

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2. PRO FORMA ADJUSTMENTS, CONTINUED:

(i) Represents the reduction in depreciation and amortization expense from the adjusted historical amounts for the Acquired Hotels based on the depreciation of the purchase prices over the estimated remaining lives of the acquired assets (see Note 1).

(j) Represents a reduction in historical depreciation expense for the Acquired Hotels to record depreciation in accordance with GAAP (see Note 1).

(k) Represents the elimination of interest expense incurred by the Acquired Hotels as the Company acquired the property and equipment only of the Acquired Hotels and did not assume the historical liabilities. Therefore, interest expense historically incurred by the Acquired Hotels will not be incurred by the Company.

(l) Represents the interest expense which would be incurred by the Company based on the purchase price of the Acquired Hotels, which will be financed under the Company's revolving line-of-credit agreement. The interest rate used in the pro forma adjustment was 7.40% based upon the currently expected borrowing rate under the Company's line-of-credit agreement commitment.

(m) Represents the minority interest share of the pro forma net income associated with OP units for the year ended October 31, 1997.

(n) Represents estimated income taxes related to the Acquired Hotels historical income before income taxes and the tax effects of pro forma adjustments.

3. INTEREST EXPENSE:

Assuming the acquisitions were made as of November 1, 1996, the Company would have incurred debt to finance part of the purchase price of the Acquired Hotels. Pro forma interest expense associated with the Company's acquisitions has been calculated assuming borrowings were made in amounts as presented in the pro forma condensed combined balance sheet and at interest rates that would be charged under the Company's revolving line-of-credit agreement. The Company's revolving line-of-credit agreement bears interest at a variable rate. The expected rate of 7.4% has been used to calculate the pro forma interest expense. If the rate increased or decreased by 0.25%, the Company's pro forma interest expense, net income and earnings per share for the year ended October 31, 1997 would increase or decrease by approximately $80,000, $53,000 and $0.01, respectively.

4. INSURANCE COSTS:

The Company has obtained insurance premium quotations for the Acquired Hotels which indicate that insurance expense will be approximately $180,000 less than the historical insurance expense which was incurred by the Acquired Hotels. This reduction in expense has not been reflected in the pro forma financial statements.

5. PRO FORMA NET INCOME PER SHARE:

The pro forma net income per share has been calculated by dividing pro forma net income by 7,084,253 common shares outstanding plus 11,000 shares to be issued to certain Company officers in connection with the Offering.

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5. PRO FORMA NET INCOME PER SHARE, CONTINUED:

The Company intends to use the $61.7 million net proceeds of the Offering to repay outstanding indebtedness. The pro forma net income per share after considering this debt repayment, the write-off of deferred loan fees associated with the extinguished debt and the reduction of interest expense, net of income taxes, is as follows:

```
Pro forma net income per share before extraordinary item........... $
0.45
Extraordinary item.................................................
.04

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Pro forma net income per share..................................... $
0.49

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Number of shares used in pro forma computation.....................
12,270

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NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY IN- FORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SHARES OF COMMON STOCK BY ANYONE IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAW- FUL TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PRO- SPECTUS NOR ANY OFFER OR SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

TABLE OF CONTENTS

	PAGE
Prospectus Summary	3
Risk Factors	11
The Company	17
Use of Proceeds	17
Dividend Policy	17
Capitalization	18
Dilution	19
Selected Combined Financial and Other Data	20
Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Business and Properties	30
Management	42
Certain Relationships and Related Transactions	49
Ownership of Common Stock	51
Partnership Agreement of the Operating Partnership	52
Description of Capital Stock	55
Shares Eligible for Future Sale	56
Underwriting	58
Experts	60
Legal Matters	60
Additional Information	60
Index to Financial Statements	F-1

UNTIL , 1998 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDI- TION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UN- DERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

5,175,000 SHARES

CAVANAUGHS HOSPITALITY CORPORATION

[LOGO]

COMMON STOCK

PROSPECTUS

CIBC OPPENHEIMER

NATIONSBANC MONTGOMERY SECURITIES LLC

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, 1998

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PART II. INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the expenses, other than underwriting discounts and commissions, paid or payable in connection with the issuance and distribution of the Common Stock being registered hereby (all amounts are estimated except the Securities and Exchange Commission Registration Fee, the NASD Filing Fee and the NYSE Listing Fee):

```
SEC Registration Fee..........................................  $
24,600
NASD Filing Fee...............................................
8,800
NYSE Listing Fee..............................................
84,600
Printing and Engraving Expenses...............................
50,000
Legal Fees and Expenses.......................................
350,000
Accounting Fees and Expenses..................................
380,000
Transfer Agent and Registrar Fees.............................
2,000

--------
  Total.......................................................
$900,000

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ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Company's Amended and Restated By-Laws ("By-Laws") and Amended and Restated Articles of Incorporation (the "Articles") provide that the Company shall, to the full extent permitted by the Washington Business Corporation Act (the "WBCA"), as amended from time to time, indemnify all directors and officers of the Company. In addition, the Company's Articles contain a provision eliminating the personal liability of directors to the Company or its stockholders for monetary damage arising out of a breach of fiduciary duty. Chapter 23B.08.510 and .570 of the WBCA authorizes a corporation to indemnify its directors, officers, employees, or agents in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including provisions permitting advances for reasonable expenses incurred) arising under the 1933 Act.

Pursuant to Chapter 23B.08.580 of the WBCA, the Board of Directors (the "Board") may authorize, by a vote of a majority of a quorum of the Board, the Company to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Company would have the power to indemnify him against such liability under Chapter 23B.08.510 or 23B.08.520 of the WBCA. The Board intends to authorize the Company to purchase and maintain appropriate policies of insurance on behalf of the Company's directors and officers against liabilities asserted against any such person arising out of his or her status as such. The Board may authorize the Company to enter into a contract with any person who is or was a director, officer, partner, trustee, employee or agent of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another partnership, joint venture, trust, employee benefit plan or other enterprise providing for indemnification rights equivalent to or, if the Board so determines, greater than those provided for in the By-Laws. The Board intends to authorize the Company to enter into contracts providing for indemnification with any person who is or was a director or officer of the Company.

Section 6 of the Underwriting Agreement (filed as an Exhibit hereto) provides that the Underwriters will indemnify and hold harmless the Company and each director, officer or controlling person of the Company from and against any liability caused by any statement or omission in the Registration Statement or Prospectus based on certain information furnished to the Company by the Underwriters for use in the preparation thereof.

Each of the employment agreements described in "Management--Employment Agreements" contains provisions entitling the executive to indemnification for losses incurred in the course of service to the Company or its subsidiaries, under certain circumstances.

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ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Effective November 1, 1997, Barbieri Investment Company ("BIC"), a company that was owned by the same group of shareholders which owned the Company prior to such date, merged into the Company. In connection with this merger, the Company issued an aggregate of 7,072,025 shares of Common Stock to the shareholders of the Company and BIC. This issuance of Common Stock is exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") pursuant to Section 4(2) promulgated thereunder.

Effective January 1, 1998, the Company issued an aggregate of 150,817 OP Units to the Barbieri Family Foundation, Inc. ("BBF"), Donald Barbieri, Richard Barbieri and Thomas Barbieri and 12,228 shares of Common Stock to Kathryn K. Barbieri in exchange for such persons' undivided partnership interests in the Lincoln Building Limited Partnership. This issuance is exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

On January 15, 1998, the Board adopted the 1998 Plan which provides for, subject to the closing of the Offering, the issuance of an aggregate of 55,000 shares of Common Stock to Arthur Coffey (15,000 shares), John Taffin (10,000 shares), Lori Farnell (10,000 shares), David Peterson (10,000 shares) and Shannon Kapek (10,000 shares) over five years. Of these 55,000 shares, 11,000 will be issued upon closing of the Offering and an additional 11,000 shares will be issued on each anniversary thereof until such anniversary date in 2002 provided such person is an employee of the Company at that time.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES.

a. Exhibits

EXHIBIT NO.	DESCRIPTION
1.1+	--Form of Underwriting Agreement
3.1*	--Amended and Restated Articles of Incorporation of the Company
3.2*	--Amended and Restated By-Laws of the Company
4.1*	--Specimen Common Stock Certificate
5.1+	--Opinion of Kaye, Scholer, Fierman, Hays & Handler, LLP, regarding the legality of issuance of the Common Stock being registered
5.2+	--Opinion of Dennis McLaughlin & Associates P.S. regarding the legality of the issuance of the Common Stock being registered.
10.1+	--Employment Agreement between the Company and Donald Barbieri
10.2+	--Employment Agreement between the Company and Arthur Coffey
10.3+	--Employment Agreement between the Company and Richard Barbieri
10.4+	--Employment Agreement between the Company and David Bell
10.5+	--Employment Agreement between the Company and Thomas Barbieri
10.6+	--Form of Revolving Credit Facility Agreement
10.7	--Amended and Restated Agreement of Limited Partnership of Cavanaughs Hospitality Limited Partnership
10.8*	--Employee Stock Purchase Plan of Cavanaughs Hospitality Corporation
10.9*	--1998 Stock Incentive Plan of Cavanaughs Hospitality Corporation
10.11+	--Form of Stock Option Award Agreement
10.12*	--Form of Restricted Stock Award Agreement
10.13	--Gateway Property Lease Agreement
10.13(A)	--Gateway Property Option Agreement

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EXHIBIT NO.	DESCRIPTION
10.14	--Ridpath Property Lease Agreement
11.0	--Computation of Earnings Per Share
21+	--List of Subsidiaries of the Company
23.1	--Consent of Coopers & Lybrand L.L.P.
23.2+	--Consent of Kaye, Scholer, Fierman, Hays & Handler, LLP (included in Exhibit 5.1)
23.2(A)+	--Consent of Dennis McLaughlin & Associates P.S. (included in Exhibit 5.2)
23.3*	--Consent of Peter F. Stanton
23.4*	--Consent of Ronald R. Taylor
23.5*	--Consent of Robert G. Templin
24.1*	--Power of Attorney (see signature pages)
27.1	--Financial Data Schedule

* Previously filed.

+ To be filed by amendment.

b. Financial Statement Schedules

All schedules for which provisions is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable or the information is contained in the Financial Statements and therefore have been omitted.

ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes as follows:

a. To provide to the Underwriters at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser;

b. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue;

c. For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or
(4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

d. For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT HAS DULY CAUSED THIS AMENDMENT NO. 1 REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF SPOKANE AND STATE OF WASHINGTON, ON THE 27TH DAY OF FEBRUARY, 1998.

Cavanaughs Hospitality Corporation

By: /s/ Richard L. Barbieri

RICHARD L. BARBIERI
SENIOR VICE PRESIDENT AND
GENERAL COUNSEL

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

NAME	TITLE	DATE
*	President, Chief Executive Officer and Chairman of the Board	February 27, 1998
DONALD K. BARBIERI		
*	Executive Vice President, Chief Financial Officer and Director (principal accounting officer)	February 27, 1998
ARTHUR M. COFFEY		
/s/ Richard L. Barbieri	Senior Vice President, General Counsel and Director	February 27, 1998
RICHARD L. BARBIERI		
*	Senior Vice President and Director	February 27, 1998
THOMAS M. BARBIERI		

*By: /s/ Richard L. Barbieri
RICHARD L. BARBIERI
(ATTORNEY-IN-FACT)

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24.1*	--Power of Attorney (see signature pages)
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* Previously filed

+ To be filed by amendment.

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Exhibit 10.7

AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF CAVANAUGHS HOSPITALITY LIMITED PARTNERSHIP

THIS AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP, dated as of November 1, 1997, is entered into by and among Cavanaughs Hospitality Corporation, a Washington corporation ("CHC" or "General Partner"), as the General Partner and the Persons whose names are set forth on Exhibit D attached hereto, as the Limited Partners, together with any Persons who become Partners in the Partnership as provided herein.

WHEREAS, the Partners desire to amend and restate the original Partnership Agreement, entered into by the same parties and dated as of November 1, 1997 ("Original Partnership Agreement"), to correct it as of November 1, 1997;

WHEREAS, the General Partner proposes to cause the Partnership to acquire direct and indirect interests in real estate and other assets, to cause the Partnership to enter into certain mortgage financing transactions and, in the event of any public offering of CHC Stock, to contribute the remaining net proceeds from the public offering to the Partnership in accordance with this Agreement; and

WHEREAS, the Partnership will issue Partnership Interests to the General Partner and other persons in accordance with this Agreement;

NOW, THEREFORE, that for good and adequate consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
DEFINED TERMS

The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

"Act" means the Delaware Revised Uniform Limited Partnership Act, as it may be amended from time to time, and any successor to such statute.

"Additional Limited Partner" means a Person admitted to the Partnership as a Limited Partner pursuant to Section 4.1 hereof and who is shown as such on the books and records of the Partnership.

"Adjusted Capital Account" means the Capital Account maintained for each Partner as of the end of each Partnership Year (i) increased by any amounts which such Partner is obligated to restore pursuant to any provision of this Agreement, or is treated as being obligated

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to restore pursuant to Regulations Section 1.704-1(b)(2)(ii)(c), or is deemed to be obligated to restore pursuant to the penultimate sentences of Regulations Sections 1.704-2(g)(1), 1.704-2(i)(5), and (ii) decreased by the items described in Regulations Sections 1.704-1(b)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), and
1.704-1(b)(2)(ii)(d)(6). The foregoing definition of Adjusted Capital Account is intended to comply with the provisions of Regulations Section 1.704-
1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"Adjusted Capital Account Deficit" means, with respect to any Partner, the deficit balance, if any, in such Partner's Adjusted Capital Account as of the end of the relevant Partnership Year.

"Adjusted Cash Amount" shall have the meaning set forth in Section 8.6.

"Adjusted Property" means any property the Carrying Value of which has been adjusted pursuant to Exhibit A hereof.

"Affiliate" means, with respect to any Person, (i) any Person directly or indirectly controlling, controlled by or under common control with such Person, (ii) any Person owning or controlling ten percent (10%) or more of the outstanding voting interests of such Person, (iii) any Person of which such Person owns or controls ten percent (10%) or more of the voting interests, or
(iv) any officer, director, general partner or trustee of such Person or of any Person referred to in clauses (i), (ii), and (iii) above. For the purposes of this definition, "control" when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agreement" means this Amended and Restated Agreement of Limited Partnership, as it may be amended, supplemented or restated from time to time.

"Assignee" means a Person to whom one or more Partnership Units have been transferred in a manner permitted under this Agreement, but who has not become a Substituted Limited Partner, and who has the rights set forth in
Section 11.5.

"Book-Tax Disparities" means, with respect to any item of Contributed Property or Adjusted Property, as of the date of any determination, the difference between the Carrying Value of such Contributed Property or Adjusted Property and the adjusted basis thereof for federal income tax purposes as of such date. A Partner's share of the Partnership's Book-Tax Disparities in all of its Contributed Property and Adjusted Property will be reflected by the difference between such Partner's Capital Account balance as maintained pursuant to Exhibit A and the hypothetical balance of such Partner's Capital Account computed as if it had been maintained strictly in accordance with federal income tax accounting principles.

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"Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by law to close.

"Capital Account" means the Capital Account maintained for a Partner pursuant to Exhibit A hereof.

"Capital Contribution" means, with respect to any partner, any cash, cash equivalents or the 704(c) Value of Contributed Property which such Partner contributes or is deemed to contribute to the Partnership pursuant to Section
4.1 or 4.2 hereof (reduced by any indebtedness either assumed by the Partnership or to which such property is subject at the time of the contribution as determined under Section 752 of the Code and the Regulations thereunder). The principal amount of a promissory note which is not readily traded on an established securities market and which is contributed by a Partner as the maker of the note shall not be considered a capital contribution until the Partnership makes a taxable disposition of the note or until (and to the extent) principal payments are made on the note, all in accordance with Treasury Regulation
Section 1.704-1(b)(2)(iv)(d)(2).

"Carrying Value" means (i) with respect to a Contributed Property or Adjusted Property, the 704(c) Value of such property, reduced (but not below zero) by all Depreciation with respect to such Property charged to the Partners' Capital Accounts following the contribution of or adjustment with respect to such Property, and (ii) with respect to any other Partnership property, the adjusted basis of such property for federal income tax purposes, all as of the time of determination. The Carrying Value of any property shall be adjusted from time to time in accordance with Exhibit A hereof, and to reflect changes, additions or other adjustments to the Carrying Value for dispositions and acquisitions of Partnership properties, as deemed appropriate by the General Partner.

"Cash Amount" means an amount of cash per Partnership Unit equal to the Value on the Valuation Date of the CHC Shares Amount.

"Certificate" means the Certificate of Limited Partnership relating to the Partnership filed in the office of the Delaware Secretary of State, as amended from time to time in accordance with the terms hereof and the Act.

"CHC" means Cavanaughs Hospitality Corporation, a Washington
Corporation.

"CHC Shares Amount" means a whole number of CHC Shares equal to the product of the number of Partnership Units offered for redemption by a Redeeming Partner, multiplied by the Conversion Factor (rounded down to the nearest whole number in the event such product is not a whole number); provided that in the event the General Partner at any time issues to all holders of CHC Shares rights, options, warrants or convertible or exchangeable securities entitling the shareholders to subscribe for or purchase CHC Shares, or any other securities or property (collectively, the "rights"), which rights have not expired pursuant to their

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terms, then the CHC Shares Amount thereafter shall also include such rights that a holder of that number of CHC Shares would be entitled to receive.

"CHC Share" means a share of common stock, par value $.01 per share, of the General Partner.

"Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time, as interpreted by the applicable regulations thereunder. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of future law.

"Consent" means the consent or approval of a proposed action by a Partner given in accordance with Section 14.2 hereof.

"Contributed Property" means each property or other asset contributed to the Partnership, in such form as may be permitted by the Act, but excluding cash contributed or deemed contributed to the Partnership. Once the Carrying Value of a Contributed Property is adjusted pursuant to Section 1.D of Exhibit A hereof, such property shall no longer constitute a Contributed Property for purposes of Exhibit A hereof, but shall be deemed an Adjusted Property for such purposes.

"Conversion Factor" means 1.0, provided that in the event that the General Partner (i) declares or pays a dividend on its outstanding CHC Shares in CHC Shares or makes a distribution to all holders of its outstanding CHC Shares in CHC Shares; (ii) subdivides its outstanding CHC Shares; or (iii) combines its outstanding CHC Shares into a smaller number of CHC Shares, the Conversion Factor shall be adjusted by multiplying the Conversion Factor by a fraction, the numerator of which shall be the number of CHC Shares issued and outstanding on the record date for such dividend, distribution, subdivision or combination (assuming for such purposes that such dividend, distribution, subdivision or combination has occurred as of such time), and the denominator of which shall be the actual number of CHC Shares (determined without the above assumption) issued and outstanding on the record date for such dividend, distribution, subdivision or combination. Any adjustment to the Conversion Factor shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event.

"Debt" means, as to any Person, as of any date of determination, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services; (ii) all amounts owed by such Person to banks or other Persons in respect of reimbursement obligations under letters of credit, surety bonds and other similar instruments guaranteeing payment or other performance of obligations by such Person; (iii) all indebtedness for borrowed money or for the deferred purchase price of property or services secured by any lien on any property owned by such Person, to the extent attributable to such Person's interest in such property, even though such Person has not assumed or become liable for the payment thereof;

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and (iv) lease obligations of such Person which, in accordance with generally accepted accounting principles, should be capitalized.

"Depreciation" means, for each Partnership year, an amount equal to the federal income tax depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such year, except that if the Carrying Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such year or other period, Depreciation shall be an amount which bears the same ratio to such beginning Carrying Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such year bears to such beginning adjusted tax basis; provided, however, that if the federal income tax depreciation, amortization, or other cost recovery deduction for such year is zero, Depreciation shall be determined with reference to such beginning Carrying Value using any reasonable method selected by the General Partner.

"Distribution Amount" means, with respect to any period for which there is a Distribution Event, an amount equal to the amount that the Partnership would have paid in federal (but not state) income taxes if it were a C corporation, calculated at the marginal federal income tax rate of the General Partner for the prior taxable year, on the Net Income for the taxable year through the calendar quarter to which the distribution relates ("Year-to-Date Net Income"), minus all General Partner Distribution Amounts and all Limited Partner Distribution Amounts previously distributed during the taxable year. Notwithstanding the above, should the General Partner determine, based on good faith estimates, that the Net Income for the entire taxable year ("Entire Year Net Income") will be less than the Year-to-Date Net Income, it shall have the right to use, in its sole and absolute discretion, the Entire Year Net Income figure in lieu of the Year-to-Date Net Income figure for purposes of determining the Distribution Amount for any calendar quarter.

"Distribution Event" means any calendar quarter in which the General Partner determines that the Partnership has generated Net Income for such quarter, after taking into consideration the Net Income and Net Losses for all previous calendar quarters for the taxable year.

"Effective Date" means November 1, 1997.

"General Partner" means Cavanaughs Hospitality Corporation, a Washington corporation, or its predecessors or successors as general partner of the Partnership.

"General Partner Distribution Amount" means the Distribution Amount, multiplied by a fraction, the numerator of which is the Net Income allocable to the General Partner for the taxable year through the quarter to which the distribution relates, and the denominator is Net Income for the taxable year through the quarter to which the distribution relates.

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"General Partner Interest" means a Partnership Interest held by the General Partner that is a general partnership interest. A General Partner Interest may be expressed as a number of Partnership Units.

"IRS" means the Internal Revenue Service, which administers the internal revenue laws of the United States.

"Immediate Family" means, with respect to any natural Person, such natural Person's spouse and such natural Person's natural or adoptive parents, descendants, nephews, nieces, brothers, and sisters.

"Incapacity" or "Incapacitated" means, (i) as to any individual Partner, death, total physical disability or entry by a court of competent jurisdiction adjudicating him incompetent to manage his Person or his estate;
(ii) as to any corporation which is a Partner, the filing of a certificate of dissolution, or its equivalent, for the corporation or the revocation of its charter; (iii) as to any partnership which is a Partner, the dissolution and commencement of winding up of the partnership; (iv) as to any estate which is a Partner, the distribution by the fiduciary of the estate's entire interest in the partnership; (v) as to any trustee of a trust which is a Partner, the termination of the trust (but not the substitution of a new trustee); or (vi) as to any Partner, bankruptcy of such Partner. For purposes of this definition, bankruptcy of a Partner shall be deemed to have occurred when (a) the Partner commences a voluntary proceeding seeking liquidation, reorganization or other relief under any bankruptcy, insolvency or other similar law now or hereafter in effect, (b) the Partner is adjudged as bankrupt or insolvent, or a final and nonappealable order for relief under any bankruptcy, insolvency or similar law now or hereafter in effect has been entered against the Partner, (c) the Partner executes and delivers a general assignment for the benefit of the Partner's creditors, (d) the Partner files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the Partner in any proceeding of the nature described in clause (b) above, (e) the Partner seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator for the Partner or for all or any substantial part of the Partner's properties, (f) any proceeding seeking liquidation, reorganization or other relief of or against such Partner under any bankruptcy, insolvency or other similar law now or hereafter in effect has not been dismissed within one hundred twenty (120) days after the commencement thereof, (g) the appointment without the Partner's consent or acquiescence of a trustee, receiver or liquidator has not been vacated or stayed within ninety (90) days of such appointment, or (h) an appointment referred to in clause (g) which has been stayed is not vacated within ninety (90) days after the expiration of any such stay.

"Indemnitee" means (i) any Person made a party to a proceeding by reason of his status as (A) the General Partner or (B) a director or officer of the Partnership or the General Partner, or (C) his or its liability, pursuant to a loan guarantee or otherwise, for any indebtedness of the Partnership or any Subsidiary of the Partnership (including, without limitation, any indebtedness which the Partnership or any Subsidiary of the Partnership has assumed or taken assets subject to), and (ii) such other Persons (including Affiliates of the General Partner or the

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Partnership) as the General Partner may designate from time to time (whether before or after the event giving rise to potential liability), in its sole and absolute discretion.

"initial public offering" means the first sale of CHC Shares by the General Partner pursuant to a registration under the Securities Act of 1933, as amended.

"Limited Partner" means any person named as a Limited Partner in Exhibit A attached hereto, as such Exhibit may be amended from time to time, or any Substituted Limited Partner or Additional Limited Partner, in such Person's capacity as a Limited Partner in the Partnership.

"Limited Partner Distribution Amount" means the Distribution Amount less the General Partner Distribution Amount.

"Limited Partner Interest" means a Partnership Interest of a Limited Partner in the Partnership representing a fractional part of the Partnership Interests of all Partners and includes any and all benefits to which the holder of such Partnership Interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement. A Limited Partner Interest may be expressed as a number of Partnership Units.

"Liquidator" has the meaning set forth in Section 13.2.

"Net Income" means, for any taxable period, the excess, if any, of the Partnership's items of income and gain for such taxable period over the Partnership's items of loss and deduction for such taxable period. The items included in the calculation of Net Income shall be determined in accordance with federal income tax accounting principles, subject to the specific adjustments provided for in Exhibit A. Once an item of income, gain, loss or deduction that has been included in the initial computation of Net Income is subjected to the special allocation rules in Exhibit B, Net Income or the resulting Net Loss, whichever the case may be, shall be recomputed without regard to such item.

"Net Loss" means, for any taxable period, the excess, if any, of the Partnership's items of loss and deduction for such taxable period over the Partnership's items of income and gain for such taxable period. The items included in the calculation of Net Loss shall be determined in accordance with federal income tax accounting principles, subject to the specific adjustments provided for in Exhibit A. Once an item of income, gain, loss or deduction that has been included in the initial computation of Net Loss is subjected to the special allocation rules in Exhibit B, Net Loss or the resulting Net Income, whichever the case may be, shall be recomputed without regard to such item.

"Nonrecourse Built-in Gain" means, with respect to any Contributed Properties or Adjusted Properties that are subject to a mortgage or negative pledge securing a Nonrecourse Liability, the amount of any taxable gain that would be allocated to the Partners pursuant to

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Section 2.B of Exhibit B if such properties were disposed of in a taxable transaction in full satisfaction of such liabilities and for not other consideration.

"Nonrecourse Deductions" has the meaning set forth in Regulations Section 1.704-2(b)(1), and the amount of Nonrecourse Deduction for a Partnership Year shall be determined in accordance with the rules of Regulations Section 1.704-2(c).

"Nonrecourse Liability" has the meaning set forth in Regulations Section 1.752-1(a)(2).

"Notice of Redemption" means the Notice of Redemption substantially in the form of Exhibit C to this Agreement.

"Original Limited Partner" means a Limited Partner who is or becomes a **Partner on the Effective Date.**

"Original Limited Partnership Unit" means a Partnership Unit held by an Original Limited Partner on the Effective Date.

"Other Assets Value Factor" means 1.0, provided that in the event the General Partner retains other assets pursuant to Section 7.5.D, or contributes such assets to the Partnership as a Capital Contribution (the "Other Assets"), the Other Assets Value Factor shall be adjusted by multiplying the Other Assets Value Factor by a fraction, the numerator of which the Value of a CHC Share multiplied by all CHC Shares outstanding as the date of the adjustment (the "CHC Value") minus the fair market value of the Other Assets, as determined by the General Partner, and the denominator of which shall be the CHC Value.

"Partner" means a General Partner or a Limited Partner, and "Partners" means the General Partner and the Limited Partners.

"Partner Minimum Gain" means an amount, with respect to each Partner Nonrecourse Debt, equal to the Partnership Minimum Gain that would result if such Partner Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Regulations Section 1.704-2(i)(3).

"Partner Nonrecourse Debt" has the meaning set forth in Regulations Section 1.704-2(b)(4).

"Partner Nonrecourse Deductions" has the meaning set forth in Regulations Section 1.704-2(i)(2), and the amount of Partner Nonrecourse Deductions with respect to a Partner Nonrecourse Debt for a Partnership Year shall be determined in accordance with the rules of Regulations Section 1.704- 2(i)(2).

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"Partnership" means the limited partnership formed under the Act and pursuant to the Original Partnership Agreement and any successor thereto.

"Partnership Interest" means an ownership interest in the Partnership and includes any and all benefits to which the holder of such a Partnership Interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement. A Partnership Interest may be expressed as a number of Partnership Units.

"Partnership Minimum Gain" has the meaning set forth in Regulations Section 1.704-2(b)(2), and the amount of Partnership Minimum Gain, as well as any net increase or decrease in Partnership Minimum Gain, for a Partnership Year shall be determined in accordance with the rules of Regulations Section 1.704- 2(d).

"Partnership Record Date" means the record date established by the General Partner for any distribution pursuant to Section 5.1 hereof.

"Partnership Unit" means a fractional, undivided share of the Partnership interests of all Partners issued pursuant to Section 4.1 or 4.2. As of the Effective Date, there shall be considered to be 7,084,251 Partnership Units outstanding, representing 100% of the Percentage Interests in the Partnership. The ownership of Partnership Units may be evidenced by such form of certificate for units as the General Partner adopts from time to time.

"Partnership Year" means the fiscal year of the Partnership, which shall initially end on October 31st, but shall be changed to December 31st at the time the General Partner changes its fiscal year to December 31st.

"Percentage Interest" means, as to a Partner, its interest in the Partnership as determined by dividing the Partnership Units owned by such Partner by the total number of Partnership Units then outstanding. In the event differing classes of Partnership Interests are issued, Percentage Interests shall be calculated on a class by class basis.

"Person" means an individual or a corporation, partnership, trust, unincorporated organization, association or other entity.

"Recapture Income" means any gain recognized by the Partnership upon the disposition of any property or asset of the Partnership, which gain is characterized as ordinary income because it represents the recapture of deductions previously taken with respect to such property or asset.

"Redeeming Partner" has the meaning set forth in Section 8.6 hereof.

"Redemption Right" shall have the meaning set forth in Section 8.6 hereof.

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"Regulations" means the Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"Residual Gain" or "Residual Loss" means any item of gain or loss, as the case may be, of the Partnership recognized for federal income tax purposes resulting from a sale, exchange or other disposition of Contributed Property or Adjusted Property, to the extent such item of gain or loss is not allocated pursuant to Section 2.B.1(a) or 2.B.2(a) of Exhibit B to eliminate Book-Tax **Disparities.**

"704(c) Value" of any Contributed Property means the fair market value of such property or other consideration at the time of contribution as determined by the General Partner using such reasonable method of valuation as it may adopt. The General Partner shall, in its sole and absolute discretion, use such method as it deems reasonable and appropriate to allocate the aggregate of the 704(c) Values of contributed Properties in a single or integrated transactions among the separate properties on a basis proportional to their respective fair market values.

"Specified Redemption Date" means the tenth (10th) Business Day after receipt by the General Partner of a Notice of Redemption; provided that no Specified Redemption Date shall occur before the later of one (1) year from the Effective Date or the date the Redemption Right arises under Section 8.6; provided further that if the General Partner combines its outstanding CHC Shares, no Specified Redemption Date shall occur after the record date and prior to the effective date of such combination.

"Subsidiary" means, with respect to any Person, any corporation, partnership, or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests is owned, directly or indirectly, by such Person.

"Substituted Limited Partner" means a Person who is admitted as a Limited Partner to the Partnership pursuant to Section 11.4.

"Terminating Capital Transaction" means any sale or other disposition of all or substantially all of the assets of the Partnership or a related series of transactions that, taken together, result in the sale or other disposition of all or substantially all of the assets of the Partnership.

"Unrealized Gain" attributable to any item of Partnership Property means, as of any date of determination, the excess, if any, of (i) the fair market value of such property (as determined under Exhibit A hereof) as of such date, over (ii) the Carrying Value of such property (prior to any adjustment to be made pursuant to Exhibit A hereof) as of such date.

"Unrealized Loss" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (i) the Carrying Value of such property (prior to

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any adjustment to be made pursuant to Exhibit A hereof) as of such date, over
(ii) the fair market value of such property (as determined under Exhibit A hereof) as of such date.

"Valuation Date" means the date of receipt by the General Partner of a Notice of Redemption or, if such date is not a Business Day, the first Business Day thereafter.

"Value" means, with respect to a CHC Share, the average of the daily market price for the ten (10) consecutive trading days immediately preceding the Valuation Date. The market price for each such trading day shall be: (i) if the CHC Shares are listed or admitted to trading on any securities exchange or the NASDAQ-National Market System, the closing price, regular way, on such day, or if no such sale takes place on such day, the average of the closing bid and asked prices on such day; (ii) if the CHC Shares are not listed or admitted to trading on any securities exchange or the NASDAQ-National Market System, the last reported sale price on such day or, if no sale takes place on such day, the average of the closing bid and asked prices on such day, as reported by a reliable quotation source designated by the General Partner; or (iii) if the CHC Shares are not listed or admitted to trading on any securities exchange or the NASDAQ National Market System and no such last reported sale price or closing bid and asked prices are available, the average of the reported high bid and low asked prices on such day, as reported by a reliable quotation source designated by the General Partner, or if there shall be no bid and asked prices on such day, the average of the high bid and low asked prices, as so reported, on the most recent day (not more than ten (10) days prior to the date in question) for which prices have been so reported; provided that if there are no bid and asked prices reported during the ten (10) days prior to the date in question, the Value of the CHC Shares shall be determined by the General Partner acting in good faith on the basis of such quotations and other information as it considers, in its reasonable judgment, appropriate. In the event the CHC Shares Amount includes rights that a holder of CHC Shares would be entitled to receive, and the General Partner acting in good faith determines that the value of such rights is not reflected in the Value of the CHC Shares determined as aforesaid, then the Value of such rights shall be determined by the General Partner acting in good faith on the basis of such quotations and other information as it considers, in its reasonable judgment, appropriate.

ARTICLE 2
ORGANIZATIONAL MATTERS

Section 2.1 Organization

The Partnership is a limited partnership organized pursuant to the provisions of the Act and upon the terms and conditions set forth herein. Except as expressly provided herein to the contrary, the rights and obligations of the Partners and the administration and termination of the Partnership shall be governed by the Act. The Partnership Interest of each Partner shall be personal property for all purposes.

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Section 2.2 Name

The name of the Partnership shall be Cavanaughs Hospitality Limited Partnership. The Partnership's business may be conducted under any other name or names deemed advisable by the General Partner, including the name of the General Partner, any Affiliate or such other business names as the General Partner shall determine. The words "Limited Partnership," "L.P.," "Ltd." or similar words or letters shall be included in the Partnership's name where necessary for the purposes of complying with the laws of any jurisdiction that so requires. The General Partner in its sole and absolute discretion may change the name of the Partnership at any time and from time to time and shall notify the Limited Partners of such change in the next regular communication to the Limited Partners.

Section 2.3 Registered Office and Agent; Principal Office

The address of the registered office of the Partnership in the State of Delaware is 1013 Centre Road, Wilmington, New Castle County, Delaware, 19805, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office shall be Prentice Hall. The principal office of the Partnership shall be 201 W. North River Drive, Suite 100, Spokane, Washington 99201, or such other place as the General Partner may from time to time designate by notice to the Limited Partners. The Partnership may maintain offices at such other place or places within or outside the State of Delaware as the General Partner deems advisable.

Section 2.4 Power of Attorney

A. Each Limited Partner and each Assignee who accepts Partnership Units (or any rights, benefits or privileges associated therewith) is deemed to irrevocably constitute and appoint the General Partner, any Liquidator, and authorized officers and attorneys-in-fact of each, and each of those acting singly, in each case with full power of substitution, as its true and lawful agent and attorney-in-fact, with full power and authority in its name, place and stead to:

(1) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (a) all certificates, documents and other instruments (including, without limitation, this Agreement and the Certificate and all amendments or restatements thereof) that the General Partner or the Liquidator deems appropriate or necessary to form, qualify or continue the existence or qualification of the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware and in all jurisdictions in which the Partnership may or plans to conduct business or own property; (b) all instruments that the General Partner or the Liquidator deems appropriate or necessary to reflect any amendment, change, modification or restatement of this Agreement in accordance with its terms; (c) all conveyances and other instruments or documents that the General Partner deems appropriate or necessary to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement, including, without limitation, a certificate of cancellation; (d) all instruments relating to the admission, withdrawal, removal or substitution of any partner pursuant to, or other events

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described in, Article 11, 12 or 13 hereof or the Capital Contribution of any Partner; and (e) all certificates, documents and other instruments relating to the determination of the rights, preferences and privileges of Partnership Interests; and

(2) execute, swear to, seal, acknowledge and file all ballots, consents, approvals, waivers, certificates and other instruments appropriate or necessary, in the sole and absolute discretion of the General Partner or any Liquidator, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action which is made or given by the Partners hereunder or is consistent with the terms of this Agreement or appropriate or necessary, in the sole discretion of the General Partner or any Liquidator, to effectuate the terms or intent of this Agreement.

Nothing contained herein shall be construed as authorizing the General Partner or any Liquidator to amend this Agreement except in accordance with Article 14 hereof or as may be otherwise expressly provided for in this Agreement.

B. The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, in recognition of the fact that each of the Partners will be relying upon the power of the General Partner and any Liquidator to act as contemplated by this Agreement in any filing or other action by it on behalf of the Partnership, and it shall survive and not be affected by the subsequent Incapacity of any Limited Partner or Assignee and the transfer of all or any portion of such Limited Partner's or Assignee's Partnership Units and shall extend to such Limited Partner's or Assignee's heirs, successors, assigns and personal representatives. Each such Limited Partner or Assignee hereby agrees to be bound by any representation made by the General Partner or any Liquidator, acting in good faith pursuant to such power of attorney, and each such Limited Partner or Assignee hereby waives any and all defenses which may be available to contest, negate or disaffirm the action of the General Partner or any Liquidator, taken in good faith under such power of attorney. Each Limited Partner or Assignee shall execute and deliver to the General Partner or the Liquidator, within fifteen (15) days after receipt of the General Partner's or Liquidator's request therefor, such further designation, powers of attorney and other instruments as the General Partner or the Liquidator, as the case may be, deems necessary to effectuate this Agreement and the purposes of the Partnership.

Section 2.5 Term

The term of the Partnership commenced on October 21, 1997, the date the Certificate was filed in the office of the Secretary of State of Delaware in accordance with the Act and shall continue until October 31, 2097, unless the Partnership is dissolved (sooner) pursuant to the provisions of Article 13 or as otherwise provided by law.

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ARTICLE 3
PURPOSE

Section 3.1 Purpose and Business

The purpose and nature of the business to be conducted by the Partnership, directly and indirectly through Subsidiaries (including, without limitation, partnerships for which the Partnership is a general partner) is to carry out all activities which may be permitted by the Act, including without limitation invest in, acquire, purchase, lease, own and operate hotels and similar properties and businesses (including interests therein), to engage in all phases of the hotel business, and to pursue such other purposes as may be incidental or related thereto, including disposing of its interests in any or all of its hotels or properties and reinvesting the proceeds thereof in furtherance of its business.

Section 3.2 Powers

The Partnership is empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described herein and for the protection and benefit of the Partner, including, without limitation, full power and authority, directly or through its ownership interest in other entities, to enter into, perform and carry out contracts of any kind, borrow money and issue evidences of indebtedness, whether or not secured by mortgage, deed of trust, pledge or other lien, acquire and develop real property, and lease, sell, transfer and dispose of real property.

ARTICLE 4
CAPITAL CONTRIBUTIONS

Section 4.1 Issuances of Additional Interests

A. The General Partner may, at any time and from time to time, determine that the Partnership requires additional funds, which funds may consist of cash or property ("Additional Funds") for any Partnership purposes as the General Partner may determine. The General Partner may raise all or any portion of the Additional Funds by accepting additional Capital Contributions (of cash or property) in exchange for Partnership Units or other Partnership Interests, and is hereby authorized to cause the Partnership from time to time to issue to the Partners or other Persons (including, without limitation, admitting Persons to the Partnership as additional Limited Partners ("Additional Limited Partners")) in connection with the contribution of cash or property to the Partnership, additional Partnership Units or other Partnership Interests in one or more classes, with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior to Limited Partnership Interests, all as shall be determined by the General Partner in its sole and absolute discretion subject to Delaware law, including, without limitation, (i) the allocations of items of Partnership income, gain, loss, deduction and credit to each such class or series of Partnership

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Interests; (ii) the right of each such class or series of Partnership Interests to share in Partnership distributions; and (iii) the rights of each such class or series of Partnership Interests upon dissolution and liquidation of the Partnership; provided that no such additional Partnership Units or other Partnership Interests shall be issued to the General Partner unless either
(a)(1) the additional Partnership Interests are issued in connection with the grant, award, or issuance of shares of the General Partner, which shares have designations, preferences and other rights (except for voting rights) such that the economic interests attributable to such shares are substantially similar to the designations, preferences and other rights of the additional Partnership Interests issued to the General Partner in accordance with this Section 4.1.A, and (2) the General Partner shall make a Capital Contribution to the Partnership in an amount equal to the proceeds, if any, raised in connection with the issuance of such shares of the General Partner, or (b) the additional Partnership Interests are issued to all Partners in proportion to their respective Percentage Interests.

B. After the Effective Date, the General Partner shall not grant, award, or issue any additional CHC Shares (other than CHC Shares issued pursuant to
Section 8.6), or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase CHC Shares (collective "New Securities"), other than to all holders of CHC Shares unless
(i) the General Partner shall cause the Partnership to issue to the General Partner Partnership Interests or rights, options, warrants or convertible or exchangeable securities of the Partnership having designations, preferences and other rights, all such that the economic interests are substantially the same as those of the grant, award or issuance of such New Securities, and (ii) the General Partner contributes the net proceeds from the grant, award or issuance of such New Securities and from the exercise of rights contained in such New Securities to the Partnership. Without limiting the foregoing, the General Partner is expressly authorized to issue New Securities for less than fair market value, and to cause the Partnership to issue to the General Partner corresponding Partnership Interests, so long as (x) the General Partner concludes in good faith that such issuance is in the interests of the General Partner and the Partnership (for example, and not by way of limitation, the issuance of CHC Shares and corresponding Units pursuant to an employee stock purchase plan providing for employee purchases of CHC Shares at a discount from fair market value or employee stock options that have an exercise price that is less than the fair market value of the CHC Shares, either at the time of issuance or at the time of exercise), and (y) the General Partner contributes all proceeds from such issuance and exercise to the Partnership.

C. The General Partner shall have the right to contribute any amounts described in Section 7.5.D to the Partnership at any time; provided however that the General Partner shall not issue additional Partnership Units with respect to such contribution.

D. Upon the acceptance of additional Capital Contributions in exchange for Partnership Units, the Percentage Interest related thereto shall be equal to a fraction, the numerator of which is equal to the amount of cash and the Carrying Value of the property contributed as of the Business Day immediately preceding the date on which the additional Capital Contributions are made (an "Adjustment Date") and the denominator of which is equal to

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the sum of (i) the Value of a CHC Share (computed as of the Business Day immediately preceding the Adjustment Date) multiplied by the CHC Shares Amount
(assuming all outstanding Partnership Units are being "offered for redemption")
and multiplied by the Other Assets Value Factor (the "Outstanding Value") plus
(ii) the aggregate amount of additional Capital Contributions contributed to the Partnership on such Adjustment Date in respect of such Partnership Units. The Percentage Interest of each other Partner holding Partnership Units shall be adjusted downward accordingly. Notwithstanding the foregoing, solely for purposes of calculating a Partner's Percentage Interest pursuant to this Section
4.1.C, (i) in the case of cash Capital Contributions by the General Partner, such Capital Contributions will be deemed to equal the cash contributed by the General Partner plus, in the case of cash contributions funded by an offering of CHC Shares or other shares of capital stock of the General Partner, the offering costs attributable to the cash contributed to the Partnership, and (ii) in the case of the contribution of properties (or any portion thereof) by the General Partner which were acquired by the General Partner in exchange for CHC Shares immediately prior to such contribution, the General Partner shall be issued a number of Partnership Units equal to the number of CHC Shares issued by the General Partner in exchange for such properties, the Partnership Units held by the other Partners shall not be adjusted, and the Partners' Percentage Interests shall be adjusted accordingly. The General Partner shall promptly give each Partner written notice of its Percentage Interest, as adjusted.

E. Upon a contribution pursuant to Section 4.1.C above, the Percentage Interest of the General Partner's Partnership Units shall be collectively increased to a percentage obtained by dividing (i) the Adjusted Cash Amount
(assuming all outstanding Partnership Units are being "offered for redemption")
on the date of the contribution minus the fair market value of all assets retained, rather than contributed, by the General Partner (as determined by the General Partner), by (ii) the Adjusted Cash Amount on the contribution date. The Percentage Interest of each other Partner holding Partnership Units shall be adjusted downward accordingly. The General Partner shall promptly give each Partner written notice of its Percentage Interest, as adjusted.

Section 4.2 Contributions of Proceeds of Issuance of CHC Shares

In connection with the initial public offering, and any other grant, award, or issuance of CHC Shares or rights, options, warrants, or convertible or exchangeable securities pursuant to Section 4.1, the General Partner shall make a Capital Contribution to the Partnership of the proceeds raised in connection with such grant, award, or issuance; provided that if the proceeds actually received by the General Partner are less than the gross proceeds of such grant, award, or issuance as a result of any underwriter's discount, commission, or fee or other expenses paid or incurred in connection with such grant, award, or issuance, then the General Partner shall be deemed to have made a Capital Contribution to the Partnership in the amount of the gross proceeds of such issuance and the Partnership shall be deemed simultaneously to have reimbursed the General Partner pursuant to Section 7.4.C for the amount of such underwriter's discount or other expenses.

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Section 4.3 No Preemptive Rights

No existing Limited Partner shall have any preemptive, preferential or other similar right with respect to (i) additional Capital Contributions or loans to the Partnership; or (ii) issuance or sale of any Partnership Units or other Partnership Interests.

Section 4.4 No Interest on Capital

No Partner shall be entitled to interest on its Capital Contribution or its Capital Account.

Section 4.5 Partnership Units for Initial Capital Contributions

In consideration for the Capital Contributions made by CHC and the Original Limited Partner, the initial ownership of Partnership Units shall be as follows:

CHC:

70,842.51 (1%) Partnership Units as a General Partner Interest 6,942,565.98 (98%) Partnership Units as a Limited Partner Interest

Original Limited Partner:
70,842.51 (1%) Partnership Units as a Limited Partner Interest

ARTICLE 5
DISTRIBUTIONS

Section 5.1 Requirement and Characterization of Distributions

The General Partner shall make distributions to the Partners when the General Partner so determines in its sole and absolute discretion, in accordance with the Partners' respective Percentage Interests on a "Partnership Record Date" determined by the General Partner in its sole and absolute discretion; provided, however, that if there is a Distribution Event, then the General Partner shall distribute (i) an amount equal to the General Partner Distribution Amount to the General Partner and (ii) an amount equal to the Limited Partner Distribution Amount to the Limited Partners in accordance with the Limited Partners' respective Percentage Interests as soon as practicable after the end of the calendar quarter to which the Distribution Event relates. Further, it is understood by the Partners that the General Partner shall generally not make any distributions other than distributions in connection with a Distribution Event, it being the intent of the Partners that the earnings of the Partnership generally be reinvested in the business.

Section 5.2 Amounts Withheld

All amounts withheld pursuant to the Code or any provisions of any state or local tax law and Section 10.5 hereof with respect to any allocation, payment or distribution to the General

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Partner, the Limited Partners or Assignees shall be treated as amounts distributed to the General Partner, Limited Partners, or Assignees pursuant to
Section 5.1 for all purposes under this Agreement.

Section 5.3 Distributions Upon Liquidation

Proceeds from a Terminating Capital Transaction and any other cash received or reductions in reserves made after commencement of the liquidation of the Partnership, shall be distributed to the Partners in accordance with Section 13.2.

Section 5.4 Revisions to Reflect Issuance of Additional Partnership
Interests

In the event that the Partnership issues additional Partnership Interests to the General Partner or any Limited Partner or other Person under Article 4, the General Partner shall make such revisions to this Article 5 as it determines are necessary to reflect the issuance of such additional Partnership Interests.

ARTICLE 6
ALLOCATIONS

Section 6.1 Allocations For Capital Account Purposes

For purposes of maintaining the Capital Accounts and in determining the rights of the Partners among themselves, the Partnership's items of income, gain, loss and deduction (computed in accordance with Exhibit A hereof) shall be allocated among the Partners in each taxable year (or portion thereof) as provided herein below.

A. Net Income. After giving effect to the special allocations set forth in Section 1 of Exhibit B, Net Income shall be allocated (i) first, to the General Partner to the extent that Net Losses previously allocated to the General Partner pursuant to the last sentence of Section 6.1.B exceed Net Income previously allocated to the General Partner pursuant to this clause (i) of
Section 6.1.A, and (ii) thereafter, Net Income shall be allocated to the Partners in accordance with their respective Percentage Interests.

B. Net Losses. After giving effect to the special allocations set forth in Section 1 of Exhibit B, Net Losses shall be allocated to the Partners in accordance with their respective Percentage Interests; provided that Net Losses shall not be allocated to any Limited Partner pursuant to this Section 6.1.B to the extent that such allocation would cause such Limited Partner to have an Adjusted Capital Account Deficit at the end of such taxable year (or increase any existing Adjusted Capital Account Deficit). All Net Losses in excess of the limitations set forth in this Section 6.1.B shall be allocated to the General Partner.

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C. Allocation of Nonrecourse Debt. For purposes of Regulations Section 1.752-3(a), the Partners agree that Nonrecourse Liabilities of the Partnership in excess of the sum of (i) the amount of Partnership Minimum Gain and (ii) the total amount of Nonrecourse Built-in Gain shall be allocated among the Partners in accordance with their respective Percentage Interests.

D. Recapture Income. Any gain allocated to the Partners upon the sale or other taxable disposition of any Partnership asset shall to the extent possible, after taking into account other required allocations of gain pursuant to Exhibit B, be characterized as Recapture Income in the same proportions and to the same

extent as such Partners have been allocated any deductions directly or indirectly giving rise to the treatment of such gains as Recapture Income (including deductions taken by any Partner with respect to Contributed Property prior to the time such Property was contributed to the Partnership).

E. Revisions to Reflect Issuance of Additional Partnership Interests. In the event that the Partnership issues additional Partnership Interests to the General Partner or any Limited Partner or other Person under Article 4, the General Partner shall make such revisions to this Article 6 as it determines are necessary to reflect the issuance of such additional Partnership Interests.

ARTICLE 7
MANAGEMENT AND OPERATIONS OF BUSINESS

Section 7.1 Management

A. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership are and shall be exclusively vested in the General Partner, and no Limited Partner shall have any right to participate in or exercise control or management power over the business and affairs of the Partnership. The General Partner may not be removed by the Limited Partners with or without cause, except with the consent of the General Partner. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or which are granted to the General Partner under any other provision of this Agreement, the General Partner, subject to Section 7.3 hereof, shall have full power and authority to do all things deemed necessary or desirable by it to conduct the business of the Partnership, to exercise all powers set forth in Section 3.2 hereof and to effectuate the purposes set forth in Section 3.1 hereof, including, without limitation:

(1) the making of any expenditures, the lending or borrowing of money (including, without limitation, making prepayments on loans), the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness (including the securing of same by deed to secure debt, mortgage, deed of trust or other lien or encumbrance on the Partnership's assets) and the incurring of any obligations it deems necessary for the conduct of the activities of the Partnership;

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(2) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership;

(3) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any assets of the Partnership (including the exercise or grant of any conversion, option, privilege, or subscription right or other right available in connection with any assets at any time held by the Partnership) or the merger or other combination of the Partnership with or into another entity;

(4) the use of the assets of the Partnership (including, without limitation, cash on hand) for any purpose consistent with the terms of this Agreement and on any terms it sees fit, including, without limitation, the financing of the conduct of the operations of the General Partner, the Partnership or any of the Partnership's Subsidiaries, the lending of funds to other Persons (including, without limitation, the Partnership's Subsidiaries) and the repayment of obligations of the Partnership and its Subsidiaries and any other Person in which it has an equity investment and the making of capital contributions to its Subsidiaries;

(5) the management, operation, leasing, landscaping, repair, alteration, demolition or improvement of any real property or improvements owned by the General Partner, the Partnership of any of the Partnership's Subsidiaries;

(6) the negotiation, execution, and the performance of any contracts, conveyances or other instruments that the General Partner considers useful or necessary to the conduct of the Partnership's operations or the implementation of the General Partner's powers under this Agreement, including contracting with contractors, developers, consultants, accountants, legal counsel, other professional advisors and other agents and the payment of their expenses and compensation out of the Partnership's assets;

(7) the distribution of Partnership cash or other Partnership assets in accordance with this Agreement;

(8) holding, managing, investing and reinvesting cash and other assets of the Partnership;

(9) the collection and receipt of revenues and income of the Partnership;

(10) the establishment of one or more divisions of the Partnership, the selection and dismissal of employees of the Partnership, any division of the Partnership, or the General Partner (including, without limitation, employees having titles such as "president," "vice president," "secretary" and "treasurer" of the Partnership, any division of the Partnership, or the General Partner), and agents, outside attorneys, accountants, consultants and contractors of the General Partner, the Partnership or any division of the Partnership, and the determination of their compensation and other terms of employment or hiring;

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(11) the maintenance of such insurance for the benefit of the Partnership and the Partners as it deems necessary or appropriate;

(12) the formation of, or acquisition of an interest in, and the contribution of property to, any further limited or general partnerships, joint ventures or other relationships that it deems desirable (including, without limitation, the acquisition of interests in, and the contributions of property to, its Subsidiaries and any other Person in which it has an equity investment from time to time);

(13) the control of any matters affecting the rights and obligations of the Partnership, including the settlement, compromise, submission to arbitration or any other form of dispute resolution, or abandonment of any claim, cause of action, liability, debt or damages due or owing to or from the Partnership, the commencement or defense of suits, legal proceedings, administrative proceedings, arbitrations or other forms of dispute resolution, and the representation of the Partnership in all suits or legal proceedings, administrative proceedings, arbitrations or other forms of dispute resolution, the incurring of legal expense, and the indemnification of any Person against liabilities and contingencies to the extent permitted by law;

(14) the undertaking of any action in connection with the Partnership's direct or indirect investment in its Subsidiaries or any other Person (including, without limitation, the contribution or loan of funds by the Partnership to such Persons);

(15) the determination of the fair market value of any Partnership property distributed in kind using such reasonable method of valuation as it may adopt;

(16) the exercise, directly or indirectly through any attorney-in-fact acting under a general or limited power of attorney, of any right, including the right to vote, appurtenant to any asset or investment held by the Partnership;

(17) the exercise of any of the powers of the General Partner enumerated in this Agreement on behalf of or in connection with any Subsidiary of the Partnership or any other Person in which the Partnership has a direct or indirect interest, or jointly with any such Subsidiary or other Person;

(18) the exercise of any of the powers of the General Partner enumerated in this Agreement on behalf of any Person in which the Partnership does not have an interest pursuant to contractual or other arrangements with such Person;

(19) the making, execution and delivery of any and all deeds, leases, notes, deeds to secure debt, mortgages, deeds of trust, security agreements, conveyances, contracts, guarantees, warranties, indemnities, waivers, releases or legal instruments or agreements in writing necessary or appropriate in the judgment of the General Partner for the accomplishment of any of the powers of the General Partner; and

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(20) the distribution of cash to acquire Partnership Units held by a Limited Partner in connection with a Limited Partner's exercise of its Redemption Right under Section 8.6.

B. Each of the Limited Partners agrees that the General Partner is authorized to execute, deliver and perform the above-mentioned agreements and transactions on behalf of the Partnership without any further act, approval or vote of the Partners, notwithstanding any other provision of this Agreement, the Act or any applicable law, rule or regulation, to the fullest extent permitted under the Act or other applicable law. The execution, delivery or performance by the General Partner or the Partnership of any agreement authorized or permitted under this Agreement shall not constitute a breach by the General Partner of any duty that the General Partner may owe the Partnership or the Limited Partners or an other Persons under this Agreement or of any duty stated or implied by law or equity.

C. At all times from and after the date hereof, the General Partner at the expense of the Partnership, may or may not, cause the Partnership to obtain and maintain (i) casualty, liability and other insurance on the properties of the Partnership and (ii) liability insurance for the Indemnitees hereunder.

D. At all times from and after the date hereof, the General Partner may cause the Partnership to establish and maintain at any and all times working capital accounts and other cash or similar balances in such amounts as the General Partner, in its sole and absolute discretion, deems appropriate and reasonable from time to time.

E. The General Partner shall have the full power and authority in the name and on behalf of the Partnership in its capacity as the General Partner, to take all such actions and to execute, deliver, and file all such agreements, instruments, reports and documents as may be necessary or advisable in connection with the formation of the General Partner, the issuance of Units in connection with a proposed transaction or any transactions described in or contemplated by the General Partner's Registration Statement on Form S-1 as may be filed with the Securities and Exchange Commission.

F. Notwithstanding anything to the contrary contained in this Agreement, any agreement of merger or consolidation of the Partnership entered into in accordance with the provisions of this Agreement may, as provided in Section 17-211(g) of the Delaware Revised Uniform Limited Partnership Act, (1) effect any amendment to this Agreement or (2) effect the adoption of a new partnership agreement for the Partnership if it is the surviving or resulting limited partnership in the merger or consolidation (provided that no such amendment shall be so effected if it would, under Section 7.3 hereof, require the consent of the Limited Partners (unless the requisite consent or consents shall be obtained), and no provision shall be included in any such new partnership agreement if such provision would, under Section 7.3 hereof, require the consent of the Limited Partners if it were being incorporated in this Agreement by amendment (unless the requisite consent shall be obtained).

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Section 7.2 Certificate of Limited Partnership

The Partnership has filed the Certificate with the Secretary of State of Delaware as required by the Act. The General Partner shall use all reasonable efforts to cause to be filed such other certificates or documents as may be reasonable and necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware and any other state, or the District of Columbia, in which the Partnership may elect to do business or own property. To the extent that such action is determined by the General Partner to be reasonable and necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate and do all the things to maintain the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) under the laws of the State of Delaware and each other state or the District of Columbia, in which the Partnership may elect to do business or own property. Subject to the terms of Section 8.5.A(4) hereof, the General Partner shall not be required, before or after filing, to deliver or mail a copy of the certificate or any amendment thereto to any Limited Partner.

Section 7.3 Restrictions on General Partner's Authority

The General Partner may not take an action in contravention of an express prohibition or limitation of this Agreement without the written Consent of a majority of the Partnership Units held by the Limited Partners (including Limited Partnership Interests held by the General Partner or an Affiliate, or such lower percentage of the Limited Partners as may be specifically provided for under a provision of this Agreement or the Act). When there is a provision in this Agreement that the General Partner may take a specific action or the Agreement is silent with respect to a specific action, and there is provided no restrictive qualifications, the General Partner may so act without the Consent of the Limited Partners.

Section 7.4 Reimbursement of the General Partner

A. Except as provided in this Section 7.4 and elsewhere in this Agreement (including the provisions of Articles 5 and 6 regarding distributions, payments, and allocations to which it may be entitled), the General Partner shall not be compensated for its services as general partner of the Partnership.

B. The General Partner shall be reimbursed on a monthly basis, or such other basis as the General Partner may determine in its sole and absolute discretion, for all expenses it incurs relating to the ownership and operation of, or for the benefit of, the Partnership; provided that the amount of any such reimbursement shall be reduced by any interest earned by the General Partner with respect to bank accounts or other instruments or accounts held by it on behalf of the Partnership as permitted in Section 7.5.A. The Limited Partners acknowledge that, for purposes of this Section 7.4.B, all of the General Partner's expenses (including without limitation, costs and expenses associated with compliance with the periodic reporting requirements and all other rules and regulations of the Securities and Exchange Commission or any other federal, state or

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local regulatory body, salaries payable to officers and employees of the General Partner, fees and expenses payable to directors of the General Partner, and all other operating of administrative costs of the General Partner) are deemed incurred for the benefit of the Partnership and shall be paid by or reimbursed by the Partnership as provided in this Section 7.4.B. Such reimbursement shall be in addition to any reimbursement to the General Partner as a result of indemnification pursuant to Section 7.7 hereof. All payments and reimbursements hereunder will be characterized for federal income tax purposes as expenses of the Partnership incurred on its behalf, and not expenses of the General Partner.

C. The General Partner shall also be reimbursed for all expenses it incurs relating to the organization and/or reorganization of the Partnership and the General Partner, the initial public offering and any other issuance of additional Partnership Interests, CHC Shares or rights, options, warrants, or convertible or exchangeable securities pursuant to Section 4.1 hereof (including, without limitation, all costs, expenses, damages, and other payments resulting from or arising in connection with litigation related to any of the foregoing).

D. In the event that the General Partner shall elect to purchase from its shareholders CHC Shares for the purpose of delivering such shares to satisfy an obligation under any dividend reinvestment program adopted by the General Partner, any employee stock purchase plan adopted by the General Partner, or any similar obligation or arrangement undertaken by the General Partner in the future, the purchase price paid by the General Partner for such CHC Shares and any other expenses incurred by the General Partner in connection with such purchase shall be considered expenses of the Partnership and shall be reimbursed to the General Partner, subject to the condition that: (i) if such CHC Shares subsequently are to be sold by the General Partner, the General Partner shall pay to the Partnership any proceeds received by the General Partner for such CHC Shares (provided that a transfer of CHC Shares for Units pursuant to Section 8.6 would not be considered a sale for such purposes); and (ii) if such CHC Shares are not retransferred by the General Partner within 30 days after the purchase thereof, the General Partner shall cause the Partnership to cancel a number of Partnership Units (rounded to the nearest whole Unit) held by the General Partner equal to the product obtained by multiplying the number of such CHC Shares by a fraction, the numerator of which is one and the denominator of which is the Conversion Factor.

Section 7.5 Outside Activities of the General Partner

A. Subject to Section 7.5.C and 7.5.D below, the General Partner shall not directly or indirectly enter into or conduct any business, other than in connection with the ownership, acquisition and disposition of Partnership Interests as a General Partner, and the management of the businesses of the Partnership, and such activities as are incidental thereto. The General Partner shall not incur any debts other than (i) debt of the Partnership for which it may be liable in its capacity as General Partner of the Partnership, and (ii) indebtedness for borrowed money the proceeds from which borrowing are loaned to the Partnership on the same terms and conditions as the borrowing by the General Partner. The General Partner shall not hold any assets other than Partnership Interests (as a General Partner or Limited Partner), other than such

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bank accounts or similar instruments or accounts as it deems necessary to carry out its responsibilities contemplated under this Agreement and the Articles of Incorporation and assets described in Section 7.5.C and Section 7.5.D below. Notwithstanding the foregoing, the General Partner may acquire property in exchange for CHC Shares, to the extent such properties are immediately contributed by the General Partner to the Partnership, pursuant to the terms described in Article 4. The General Partner and any Affiliates of the General Partner may acquire Limited Partner Interests and shall be entitled to exercise all rights of a Limited Partner relating to such Limited Partner Interests.

B. Subject to the next sentence, the General Partner may, from time to time, purchase and/or redeem CHC Shares (including, without limitation, in connection with a stock repurchase or similar program), if the General Partner determines that it is in the interest of the Partnership for the General Partner to purchase and/or redeem CHC Shares. In the event that the General Partner purchases and/or redeems CHC Shares, then the General Partner shall cause the Partnership to purchase from the General Partner, concurrently with the CHC Share purchase, a number of Partnership Units as determined based on the application of the Conversion Factor for the same consideration (including any fees, commissions, and expenses payable by the General Partner in connection therewith) and on the same terms as the General Partner purchases such CHC Shares.

C. Notwithstanding anything to the contrary in Section 7.5.A above, and subject to Section 7.5.D below, the General Partner shall have the right to hold assets, conduct business and incur indebtedness in connection therewith, with respect to certain assets that the General Partner believes, in its sole and absolute discretion, cannot or should not be held by or transferred to the Partnership. All benefits and burdens of any activities conducted in this fashion shall inure to the Partnership; all income, gain, loss, deduction, credit, cash flow and indebtedness shall be considered Partnership income, gain, loss, deduction, credit, cash flow and indebtedness. Without limiting the foregoing, for all purposes of this Agreement, the General Partner shall be considered the mere holder of legal title and the Partnership shall be considered the beneficial owner.

D. In the event the General Partner receives a distribution pursuant to
Section 5.1, the amount received, and investments and other businesses and activities entered into utilizing such distributions, shall not be subject to
Section 7.5.C.

Section 7.6 Contracts with Affiliates

A. The Partnership may lend or contribute funds or other assets to its Subsidiaries or other Persons in which it has an equity investment, and such Persons may borrow funds from the Partnership, on terms and conditions established in the sole and absolute discretion of the General Partner. The foregoing authority shall not create any right or benefit in favor of any Subsidiary or any other Person.

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B. Except as provided in Section 7.5, the Partnership may transfer assets to joint ventures, other partnerships, corporations or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions consistent with this Agreement and applicable law as the General Partner, in its sole and absolute discretion, believes are advisable.

C. Except as expressly permitted by this Agreement, neither the General Partner nor any of its Affiliates shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that are determined by the General Partner in good faith to be fair and reasonable and no less favor to the Partnership than would be obtained from an unaffiliated third party.

D. The General Partner, in its sole and absolute discretion and without the approval of the Limited Partners, may propose and adopt on behalf of the Partnership employee benefit plans, stock option plans, and similar plans funded by the Partnership for the benefit of employees of the General Partner, the Partnership, Subsidiaries of the Partnership or any Affiliate of any of them in respect of services performed, directly or indirectly, for the benefit of the Partnership, the General Partner, or any of the Partnership's Subsidiaries.

E. The General Partner is expressly authorized to enter into, in the name and on behalf of the Partnership, a right of first opportunity arrangement and other conflict avoidance agreements with various Affiliates of the Partnership and the General Partner, on such terms as the General Partner, in its sole and absolute discretion, believes are advisable.

Section 7.7 Indemnification

A. The Partnership shall indemnify each Indemnitee from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including, without limitation, attorneys fees and other legal fees and expenses), judgments, fines, settlements, and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the Partnership in which such Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, unless it is established that: (i) the act or omission of the Indemnitee was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty; (ii) the Indemnitee actually received an improper personal benefit in money, property or services; or (iii) in the case of any criminal proceeding, the Indemnitee had reasonable cause to believe that the act or omission was unlawful. Without limitation, the foregoing indemnity shall extend to any liability of any Indemnitee, pursuant to a loan guaranty or otherwise, for any indebtedness of the Partnership or any Subsidiary of the Partnership (including, without limitation, any indebtedness which the Partnership or any Subsidiary of the Partnership has assumed or taken subject to), and the General Partner is hereby authorized and empowered, on behalf of the Partnership, to enter into one or more indemnity agreements consistent with the provisions of this Section 7.7 in favor of any Indemnitee having or potentially having liability for any such indebtedness. The termination of any proceeding, by judgment, order or settlement does not

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create a presumption that the Indemnitee did not meet the requisite standard of conduct set forth in this Section 7.7.A. The termination of any proceeding by conviction of an Indemnitee or upon a plea of nolo contendere or its equivalent by an Indemnitee, or an entry of an order of probation against an Indemnitee prior to judgment, creates a rebuttable presumption that such Indemnitee acted in a manner contrary to that specified in this Section 7.7.A with respect to the subject matter of such proceeding. Any indemnification pursuant to this Section 7.7 shall be made only out of the assets of the Partnership, and neither the General Partner nor any Limited Partner shall have any obligation to contribute to the capital of the Partnership or otherwise provide funds to enable the Partnership to fund its obligations under this Section 7.7.

B. Reasonable expenses incurred by an Indemnitee who is a party to a proceeding may be paid or reimbursed by the Partnership in advance of the final disposition of the proceeding upon receipt by the Partnership of (i) a written affirmation by the Indemnitee of the Indemnitee's good faith belief that the standard of conduct necessary for indemnification by the Partnership as authorized in this Section 7.7.A has been met, and (ii) a written undertaking by or on behalf of the Indemnitee to repay the amount if it shall ultimately be determined that the standard of conduct has not been met.

C. The indemnification provided by this Section 7.7 shall be in addition to any other rights to which an Indemnitee or any other Person may be entitled under any agreement, pursuant to any vote of the Partners, as a matter of law or otherwise, and shall continue as to an Indemnitee who has ceased to serve in such capacity unless otherwise provided in a written agreement pursuant to which such Indemnitee is indemnified.

D. The Partnership may, but shall not be obligated to, purchase and maintain insurance, on behalf of the Indemnitees and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expenses that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

E. For purposes of this Section 7.7, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute fines within the meaning of Section 7.7; and actions taken or omitted by the Indemnitee with respect to an employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is not opposed to the best interests of the Partnership.

F. In no event may an Indemnitee subject any of the Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

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G. An Indemnitee shall not be denied indemnification in whole or in part under this Section 7.7 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

H. The provisions of this Section 7.7 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons. Any amendment, modification or repeal of this Section 7.7 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the Partnership's liability to any Indemnitee under this Section 7.7 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

Section 7.8 Liability of the General Partner

A. Notwithstanding anything to the contrary set forth in this Agreement, the General Partner shall not be liable for monetary damages to the Partnership, any Partners or any Assignees for losses sustained or liabilities incurred as a result of errors in judgment or of any act or omission if the General Partner acted in good faith.

B. The Limited Partners expressly acknowledge that the General Partner is acting on behalf of the Partnership and the General Partner's shareholders collectively, that the General Partner is under no obligation to consider the separate interests of the Limited Partners (including, without limitation, the tax consequences to Limited Partners or Assignees) in deciding whether to cause the Partnership to take (or decline to take) any actions, and that the General Partner shall not be liable to the Partnership or to any Partner for monetary damages for losses sustained, liabilities incurred, or benefits not derived by Limited Partners in connection with such decisions, provided that the General Partner has acted in good faith.

C. Subject to its obligations and duties as General Partner set forth in Section 7.1.A hereof, the General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents. The General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by it in good faith.

D. Any amendment, modification or repeal of this Section 7.8 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the General Partner's liability to the Partnership and the Limited Partners under this Section 7.8 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

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Section 7.9 Other Matters Concerning the General Partner

A. The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, or other paper or document believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties.

B. The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers, architects, engineers, environmental consultants and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the opinion of such Persons as to matters which such General Partner reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.

C. The General Partner shall have the right, in respect of any of its powers or obligations hereunder, to act through any of its duly authorized officers and a duly appointed attorney or attorneys-in-fact. Each such attorney shall, to the extent provided by the General Partner in the power of attorney, have full power and authority to do and perform all and every act and duty which is permitted or required to be done by the General Partner hereunder.

Section 7.10 Title to Partnership Assets

Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner or one or more nominees, as the General Partner may determine, including Affiliates of the General Partner. The General Partner hereby declares and warrants that any Partnership assets for which legal title is held in the name of the General Partner or any nominee or Affiliate of the General Partner shall be held by the General Partner for the use and benefit of the Partnership in accordance with the provisions of this Agreement; provided, however, that the General Partner shall use its best efforts to cause beneficial and record title to such assets to be vested in the Partnership as soon as reasonably practicable. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which legal title to such Property assets is held.

Section 7.11 Reliance by Third Parties

Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the General Partner has full power and authority, without consent or approval of any other Partner or Person, to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any contracts on behalf of the Partnership, and take any and all actions on behalf of the Partnership and such Person shall be entitled to deal with the General Partner as if the General Partner were the Partnership's sole

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party in interest, both legally and beneficially. Each Limited Partner hereby waives any and all defenses or other remedies which may be available against such Person to contest, negate or disaffirm any action of the General Partner in connection with any such dealing. In no event shall any Person dealing with the General Partner or its representatives be obligated to ascertain that the terms of this Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the General Partner or its representatives. Each and every certificate, document or other instrument executed on behalf of the Partnership by the General Partner or its representatives shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (i) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (ii) the Person executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Partnership and (iii) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

The indemnification provision set forth in this Section 7.7 and the liability provision set forth in Section 7.8 are for the benefit of the Partners hereto. Any standard used therein is not intended to apply to any matter other than those two Sections; such standards shall specifically not apply to transactions between the Partnership and third parties.

ARTICLE 8
RIGHTS AND OBLIGATIONS OF LIMITED PARTNERS

Section 8.1 Limitation of Liability

The Limited Partners shall have no liability under this Agreement except as expressly provided in this Agreement, including Section 10.5 hereof, or under the Act.

Section 8.2 Management of Business

No Limited Partner or Assignee (other than the General Partner, any of its Affiliates or any officer, director, employee, partner, agent or trustee of the General Partner, the Partnership or any of their Affiliates, in their capacity as such) shall take part in the operation, management or control (within the meaning of the Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. The transaction of any such business by the General Partner, any of its Affiliates or any officer, director, employee, partner, agent or trustee of the General Partner, the Partnership or any of their Affiliates, in their capacity as such, shall not affect, impair or eliminate the limitations on the liability of the Limited Partners or Assignees under this Agreement.

Section 8.3 Outside Activities of Limited Partners

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Subject to Section 7.5 hereof and any other agreements entered into by a Limited Partner or its Affiliates with the Partnership or a Subsidiary, any Limited Partner and any officer, director, employee, agent, trustee, Affiliate or shareholder of any Limited Partner shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities that are in direct competition with the Partnership or that are enhanced by the activities of the Partnership. Neither the Partnership nor any Partners shall have any rights by virtue of this Agreement in any business ventures of any Limited Partner or Assignee. None of the Limited Partners nor any other Person shall have any rights by virtue of this Agreement or the Partnership relationship established hereby in any business ventures of any other Person (other than the General Partner to the extent expressly provided herein) and such Person shall have no obligation pursuant to this Agreement to offer any interest in any such business ventures to the Partnership, any Limited Partner or any such other Person, even if such opportunity is of a character which, if presented to the Partnership, any Limited Partner or such other Person, could be taken by such Person.

Section 8.4 Return of Capital

Except pursuant to the right of redemption set forth in Section 8.6, no Limited Partner shall be entitled to the withdrawal or return of its Capital Contribution, except to the extent of distributions made pursuant to this Agreement or upon termination of the Partnership as provided herein. Nothing in this Section 8.4 shall be interpreted as limiting the Partnership's right to redeem all or a portion of the Partnership Units held by a Limited Partner, with the consent of such Limited Partner, on such terms and for such consideration as determined by the General Partner to be in the interests of the Partnership. Except to the extent provided by Exhibit B hereof or as permitted by Section 4.1 (relating to preferred interests issued subsequent to the date hereof), or otherwise expressly provided in this Agreement, no Limited Partner or Assignee shall have priority over any other Limited Partner or Assignee either as to the return of Capital Contributions or as to profits, losses or distributions.

Section 8.5 Rights of Limited Partners Relating to the Partnership

A. In addition to other rights provided by this Agreement or by the Act, and except as limited by Section 8.5.C hereof, each Limited Partner shall have the right, for a purpose reasonably related to such Limited Partner's interest as a limited partner in the Partnership, upon written demand with a statement of the purpose of such demand and at such Limited Partner's own expense (including such copying and administrative charges as the General Partner may establish from time to time):

(1) to obtain a copy of the most recent annual and quarterly reports filed with the Securities and Exchange Commission by the General Partner pursuant to the Securities Exchange Act of 1934;

(2) to obtain a copy of the Partnership's federal, state and local income tax returns for each Partnership Year;

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(3) to obtain a current list of the name and last known business, residence or mailing address of each Partner;

(4) to obtain a copy of this Agreement and the Certificate and all amendments thereto, together with executed copies of all powers of attorney pursuant to which this Agreement, the Certificate and all amendments thereto have been executed; and

(5) to obtain true and full information regarding the amount of cash and a description and statement of any other property or services contributed by each Partner and which each Partner has agreed to contribute in the future, and the date on which each became a Partner.

B. The Partnership shall notify each Limited Partner, upon request, of the then current Conversion Factor and any change therein.

C. Notwithstanding any other provision of this Section 8.5, the General Partner may keep confidential from the Limited Partners, for such period of time as the General Partner determines in its sole and absolute discretion to be reasonable, any information that (i) the General Partner reasonably believes to be in the nature of trade secrets or other information the disclosure of which the General Partner in good faith believes is not in the best interests of the Partnership or could damage the Partnership or its business or (ii) the Partnership is required by law or by agreements with an unaffiliated third party to keep confidential.

Section 8.6 Redemption Right

A. Subject to Section 8.6.B, each Limited Partner shall have the right (the "Redemption Right"), on or after the first anniversary of the date on which such Limited Partner acquires its Partnership Units (or such later or earlier date as shall be determined in the sole and absolute discretion of the General Partner at the time of issuance of the Partnership Units), to require the Partnership to redeem on a Specified Redemption Date all or a portion of the Partnership Units held by such Limited Partner at a redemption price equal to the Cash Amount multiplied by the Other Assets Value Factor ("Adjusted Cash Amount"). The redemption price shall be paid in cash by the Partnership. The Redemption Right shall be exercised pursuant to a Notice of Redemption delivered to the Partnership (with a copy to the General Partner) by the Limited Partner who is exercising the redemption right (the "Redeeming Partner"). A Limited Partner may not exercise the Redemption Right for less than one thousand (1,000) Partnership Units, or, if such Limited Partner holds less than one thousand (1,000) Partnership Units, all of the Partnership Units held by such Partner. The Assignee of any Limited Partner may exercise the rights of such Limited Partner pursuant to this Section 8.6, and such Limited Partner shall be deemed to have assigned such rights to such Assignee and shall be bound by the exercise of such rights by such Limited Partner's Assignee. In connection with any exercise of such rights by such Assignee on behalf of such Limited Partner, the Adjusted Cash Amount shall be paid by the Partnership directly to such Assignee and not to such Limited Partner. Neither the Redeeming Partner nor any Assignee of any Limited Partner shall have any right, with respect to any

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Partnership Units so redeemed, to receive any distributions paid after the Specified Redemption Date.

B. Notwithstanding the provisions of Section 8.6.A, in the event a Limited Partner elects to exercise the Redemption Right, the General Partner may, in its sole and absolute discretion, elect to assume directly and satisfy all or a portion of a Redemption Right by electing to buy some or all of the Partnership Units from the Redeeming Partner for either the Adjusted Cash Amount, the CHC Shares Amount multiplied by the Other Assets Value Factor, or a combination thereof, relating to the Partnership Units being purchased by the General Partner (in its sole and absolute discretion) on the Specified Redemption Date, whereupon the General Partner shall acquire such Partnership Units offered for redemption by the Redeeming Partner and shall be treated for all purposes of this Agreement as the owner of such Partnership Units. Unless the General Partner (in its sole and absolute discretion) shall exercise its right to assume directly and satisfy all or a portion of a Redemption Right, the General Partner itself shall have no obligation to the Redeeming Partner or to the Partnership with respect to the Redeeming Partner's exercise of the Redemption Right. In the event the General Partner shall exercise its right to satisfy all or a portion of a Redemption Right in the manner described in the first sentence of this Section 8.6.B, the Partnership shall have no obligation to pay any amount to the Redeeming Partner with respect to such Redeeming Partner's exercise of the Redemption Right to which the General Partner's election relates, and each of the Redeeming Partner, the Partnership, and the General Partner shall treat the transaction between the General Partner and the Redeeming Partner for federal income tax purposes as a sale of such Redeeming Partner's Partnership Units to the General Partner. Each Redeeming Partner agrees to execute such documents as the General Partner may reasonably require in connection with the issuance of CHC Shares upon exercise of the Redemption Right. If the Redemption Right is satisfied by the delivery of CHC Shares, the Redeeming Partner shall be deemed to become a holder of CHC Shares as of the close of business on the Specified Redemption Date.

C. Each Limited Partner covenants and agrees with General Partner that all Partnership Units delivered for redemption shall be delivered to the Partnership or the General Partner, as the case may be, free and clear of all liens and, notwithstanding anything herein contained to the contrary, neither the General Partner nor the Partnership shall be under any obligation to acquire Partnership Units which are or may be subject to any liens. Each Limited Partner further agrees that, in the event any state or local property transfer tax is payable as a result of the transfer of its Partnership Units to the Partnership or the General Partner, such Limited Partner shall assume and pay such transfer tax.

D. Notwithstanding anything herein to the contrary in this Agreement, with respect to any Redemption Right or exchange for CHC Shares pursuant to this
Section 8.6:

(1) All Partnership Units acquired by the General Partner pursuant thereto shall automatically, and without further action required, be converted into and deemed to be Limited Partner Interests comprised of the same number and class of Partnership Units.

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(2) Without the consent of the General Partner, each Limited Partner may not effect a Redemption Right during the period after the Partnership Record Date with respect to a distribution and before the record date established by the General Partner for a distribution to its stockholders of some or all of its portion of such distribution.

(3) The consummation of any Redemption Right or exchange for CHC Shares shall be subject to the expiration or termination of the applicable waiting period, if any, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

(4) Each Redeeming Partner shall continue to own all Partnership Units subject to any Redemption Right or exchange for CHC Shares, and be treated as a Limited Partner with respect to such Partnership Units for all purposes of this Agreement, until such Partnership Units are transferred to the General Partner and paid for or exchanged on the Specified Redemption Date. Until a Specified Redemption Date, the Redeeming Partner shall have no rights as a stockholder of the General Partner with respect to such Redeeming Partner's Partnership Units.

E. In the event that the Partnership issues additional Partnership Interests to any Additional Limited Partner pursuant to Section 4.1 hereof, the General Partner shall make such revisions to this Section 8.6 as it determines are necessary to reflect the issuance of such additional Partnership Interests.

F. Any Adjusted Cash Amount to be paid to a Redeeming Partner pursuant to this Section 8.06 shall be paid within 60 days after the Specified Redemption Date relating to the Partnership Units to be redeemed or purchased; provided, however, that such 60-day period may be extended for up to an additional 180-day period to the extent required for the Company to cause additional CHC Shares to be issued to provide financing to be used to make such payment of the Adjusted Cash Amount. Notwithstanding the foregoing, the Company and the General Partner agree to use their best efforts to cause the closing of the acquisition of redeemed Partnership Units hereunder to occur as quickly as reasonably possible.

SECTION 9 BOOKS, RECORDS, ACCOUNTING AND REPORTS

Section 9.1 Records and Accounting

The General Partner shall keep or cause to be kept at the principal office of the Partnership those records and documents required to be maintained by the Act and other books and records deemed by the General Partner to be appropriate with respect to the Partnership's business, including, without limitation, all books and records necessary to provide to the Limited Partners any information, lists and copies of documents required to be provided pursuant to Section 9.3 hereof. Any records maintained by or on behalf of the Partnership in the regular course of its business may be kept on, or be in the form of, punch cards, magnetic tape,

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photographs, micro graphics or any other information storage device, provided that the records so maintained are convertible into clearly legible written form
within a reasonable period of time. The books of the Partnership shall be maintained, for financial and tax reporting purposes, on an accrual basis in accordance with generally accepted accounting principles, or other such basis as the General Partner determines to be necessary or appropriate.

Section 9.2 Fiscal Year

The fiscal year of the Partnership shall initially end on October 31st, but shall be changed to December 31st at the time the General Partner changes its fiscal year to December 31st.

Section 9.3 Reports

A. As soon as practicable, but in no event later than one hundred five
(105) days after the close of each Partnership Year, the General Partner shall cause to be mailed to each Limited Partner as of the close of the Partnership Year, an annual report containing financial statements of the Partnership, or of the General Partner if such statements are prepared solely on a consolidated basis with the General Partner, for such Partnership Year, presented in accordance with generally accepted accounting principles, such statements to be audited by a nationally recognized firm of independent public accountants selected by the General Partner.

B. As soon as practicable, but in no event later than one hundred five
(105) days after the close of each calendar quarter (except the last calendar quarter of each year), the General Partner shall cause to be mailed to each Limited Partner as of the last day of the calendar quarter, a report containing unaudited financial statements of the Partnership, or of the General Partner, if such statements are prepared solely on a consolidated basis with the General Partner, and such other information as may be required by applicable law or regulation, or as the General Partner determines to be appropriate.

ARTICLE 10
TAX MATTERS

Section 10.1 Preparation of Tax Returns

The General Partner shall arrange for the preparation and timely filing of all returns of Partnership income, gains, deductions, losses and other items required of the Partnership for federal and state income tax purposes and shall use all reasonable efforts to furnish, within the time period for filing such returns (without extensions), the tax information reasonably required by Limited Partners for federal and state income tax reporting purposes.

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Section 10.2 Tax Elections

Except as otherwise provided herein, the General Partner shall, in its sole and absolute discretion, determine whether to make any available election pursuant to the Code; provided, however, that the General Partner shall make the election under Section 754 of the Code in accordance with the applicable regulations thereunder effective for the first calendar year following the Effective Date. The General Partner shall have the right to seek to revoke any such election (including, without limitation, the election under Section 754 of the Code) upon the General Partner's determination in its sole and absolute discretion that such revocation is in the best interests of the Partners.

Section 10.3 Tax Matters Partner

A. The General Partner shall be the "tax matters partner" of the Partnership for federal income tax purposes. Pursuant to Section 6230(e) of the Code, upon receipt of notice from the IRS of the beginning of an administrative proceeding with respect to the Partnership, the tax matters partner shall furnish the IRS with the name, address, taxpayer identification number, and profit interest of each of the Limited Partners and the Assignees; provided, however, that such information is provided to the Partnership by the Limited Partners and the Assignees.

B. The tax matters partner is authorized, but not required:

(1) to enter into any settlement with the IRS with respect to any administrative or judicial proceedings for the adjustment of the Partnership items required to be taken into account by a Partner for income tax purposes (such administrative proceedings being referred to as a "tax audit" and such judicial proceedings being referred to as "judicial review"), and in the settlement agreement the tax matters partner may expressly state that such agreement shall bind all Partners, except that such settlement agreement shall not bind any Partner (i) who (within the time prescribed pursuant to the Code and Regulations) files a statement with the IRS providing that the tax matters partner shall not have the authority to enter into a settlement agreement on behalf of such Partner or (ii) who is a "notice partner" (as defined in Section 6231(a)(8) of the Code) or a member of a "notice group" (as defined in Section 6223(b)(2) of the Code);

(2) in the event that a notice of a final administrative adjustment at the Partnership level of any item required to be taken into account by a Partner for tax purposes (a "final adjustment") is mailed to the tax matters partner, to seek judicial review of such final adjustment, including the filing of a petition for readjustment with the Tax Court or the filing of a complaint for refund with the United States Claims Court or the District Court of the United States for the district in which the Partnership's principal place of business is located;

(3) to intervene in any action brought by any other Partner for judicial review of a final adjustment;

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(4) to file a request for an administrative adjustment with the IRS and, if any part of such request is not allowed by the IRS, to file an appropriate pleading (petition or complaint) for judicial review with respect to such request;

(5) to enter into an agreement with the IRS to extend the period for assessing any tax which is attributable to any item required to be taken into account by a Partner for tax purposes, or an item affected by such item; and

(6) to take any other action on behalf of the Partners of the Partnership in connection with any tax audit or judicial review proceeding to the extent permitted by applicable law or regulations.

The taking of any action and the incurring of any expense by the tax matters partner in connection with any such proceeding, except to the extent required by law, is a matter in the sole and absolute discretion of the tax matters partner and the provisions relating to indemnification of the General Partner set forth in Section 7.7 of this Agreement shall be fully applicable to the tax matters partner in its capacity as such.

C. The tax matters partner shall receive no compensation for its services. All third party costs and expenses incurred by the tax matters partner in performing its duties as such (including legal and accounting fees and expenses) shall be borne by the Partnership. Nothing herein shall be construed to restrict the Partnership from engaging an accounting or legal firm to assist the tax matters partner in discharging its duties hereunder, so long as the compensation paid by the Partnership for such services is reasonable.

Section 10.4 Organizational Expenses

The Partnership shall elect to deduct expenses, if any, incurred by it in organizing the Partnership ratably over a sixty (60) month period as provided in
Section 709 of the Code.

Section 10.5 Withholding

Each Limited Partner hereby authorizes the Partnership to withhold from or pay on behalf of or with respect to such Limited Partner any amount of federal, state, local, or foreign taxes that the General Partner determines that the Partnership is required to withhold or pay with respect to any amount distributable or allocable to such Limited Partner pursuant to this Agreement, including, without limitation, any taxes required to be withheld or paid by the Partnership pursuant to Sections 1441, 1442, 1445, or 1446 of the Code. Any amount paid on behalf of or with respect to a Limited Partner shall constitute a loan by the Partnership to such Limited Partner, which loan shall be repaid by such Limited Partner within fifteen (15) days after notice from the General Partner that such payment must be made unless (i) the Partnership withholds such payment from a distribution which would otherwise be made to the Limited Partner or (ii) the General Partner determines, in its sole and absolute discretion, that such payment may be satisfied out of the available funds of the Partnership which would, but for such payment, be

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distributed to the Limited Partner. Any amounts withheld pursuant to the foregoing clauses (i) or (ii) shall be treated as having been distributed to such Limited Partner. Each Limited Partner hereby unconditionally and irrevocably grants to the Partnership a security interest in such Limited Partner's Partnership Interest to secure such Limited Partner's obligation to pay to the Partnership any amounts required to be paid pursuant to this Section
10.5. In the event that a Limited Partner fails to pay any amounts owed to the Partnership pursuant to this Section 10.5 when due, the General Partner may, in its sole and absolute discretion, elect to make the payment to the Partnership on behalf of such defaulting Limited Partner, and in such event shall be deemed to have loaned such amount to such defaulting Limited Partner and shall succeed to all rights and remedies of the Partnership as against such defaulting Limited Partner. Without limitation, in such event the General Partner shall have the right to receive distributions that would otherwise be distributable to such defaulting Limited Partner until such time as such loan, together with all interest thereon, has been paid in full, and any such distributions so received by the General Partner shall be treated as having been distributed to the defaulting Limited Partner and immediately paid by the defaulting Limited Partner to the General Partner in repayment of such loan. Any amounts payable by a Limited Partner hereunder shall bear interest at the lesser of (A) the base rate on corporate loans at large United States money center commercial banks, as published from time to time in the Wall Street Journal, plus four (4) percentage points, or (B) the maximum lawful rate of interest on such obligation, such interest to accrue from the date such amount is due (i.e., fifteen (15) days after demand) until such amount is paid in full. Each Limited Partner shall take such actions as the Partnership or the General Partner shall request in order to perfect or enforce the security interest created hereunder.

ARTICLE 11
TRANSFERS AND WITHDRAWALS

Section 11.1 Transfer

A. The term "transfer," when used in this Article 11 with respect to a Partnership Interest or Partnership Unit, shall be deemed to refer to a transaction by which the General Partner purports to assign all or any part of its General Partner Interest to another Person or by which a Limited Partner purports to assign all or any part of its Limited Partner Interest to another Person, and includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition by law or otherwise. The term "transfer" when used in this Article 11 does not include any redemption of Partnership Units by a Limited Partner or acquisition of Partnership Units from a Limited Partner by the General Partner pursuant to Section 8.6.

B. No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article 11. Any transfer or purported transfer of a Partnership Interest not made in accordance with this Article 11 shall be null and void.

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Section 11.2 Transfer of General Partner's Partnership Interest

A. The General Partner may not transfer any of its General Partner Interest or withdraw as General Partner except in connection with a transaction described in Section 11.2.B or 11.2.C.

B. Except as otherwise provided in Section 11.2.C, the General Partner shall not engage in any merger, consolidation or other combination with or into another Person or sale of all or substantially all of its assets, or any reclassification, or recapitalization or change of outstanding CHC Shares (other than a change in par value, or from par value to no par value, or as a result of a subdivision or combination as described in the definition of "Conversion Factor") ("Transaction"), unless the Transaction also includes a merger of the Partnership or sale of substantially all of the assets of the Partnership or sale of substantially all of the assets of the Partnership which has been approved by the requisite Consent of the Partners pursuant to Section 7.3 and as a result of which all Limited Partners will receive for each Partnership Unit an amount of cash, securities, or other property equal to the product of the Conversion Factor and the greatest amount of cash, securities or other property paid to a holder of one CHC Share in consideration of one CHC Share at any time during the period from and after the date on which the Transaction is consummated.

C. Notwithstanding Section 11.2.B, the General Partner may merge with another entity if immediately after such merger substantially all of the assets of the surviving entity, other than Partnership Units held by the General Partner (whether such Partnership Units constitute the General Partnership Interest or a Limited Partnership Interest), are contributed to the Partnership as a Capital Contribution in exchange for Partnership Units with a fair market value, as reasonably determined by the General Partner, equal to the 704(c) Value of the assets so contributed.

Section 11.3 Limited Partners' Rights to Transfer

A. Subject to the provisions of Section 11.3.F, no Limited Partner shall have the right to transfer all or any portion of his Partnership Interest, or any of such Limited Partner's rights as a Limited Partner, without the prior written consent of the General Partner, which consent may be given or withheld by the General Partner in its sole and absolute discretion. Any purported transfer of a Partnership Interest by a Limited Partner in violation of this
Section 11.3.A shall be void ab initio and shall not be given effect for any purpose by the Partnership.

B. If a Limited Partner is subject to Incapacity, the executor, administrator, trustee, committee, guardian, conservator or receiver of such Limited Partner's estate shall have all the rights of a Limited Partner, but not more rights than those enjoyed by other Limited Partners, for the purpose of settling or managing the estate and such power as the Incapacitated Limited Partner possessed to transfer all or any part of his or its interest in the Partnership. The Incapacity of a Limited Partner, in and of itself, shall not dissolve or terminate the Partnership.

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C. The General Partner may prohibit any transfer by a Limited Partner of his Partnership Units if, in the opinion of legal counsel to the Partnership, such transfer would require filing of a registration statement under the Securities Act of 1933 or would otherwise violate any federal, state or foreign securities laws or regulations applicable to the Partnership or the Partnership Unit.

D. No transfer by a Limited Partner of his Partnership Units may be made to any Person if (i) in the opinion of legal counsel for the Partnership, it would result in the Partnership being treated as an association taxable as a corporation for federal income tax purposes, or would result in a termination of the partnership for federal income tax purposes or (ii) such transfer is effectuated through an "established securities market" or a "secondary market (or the substantial equivalent thereof)" within the meaning of Section 7704 of the Code.

E. No transfer of any Partnership Units may be made to a lender to the Partnership or any person who is related (within the meaning of Section 1.752-
4(b) of the Regulations) to any lender to the Partnership whose loan constitutes a Nonrecourse Liability, without the consent of the General Partner, which consent may be given or withheld by the General Partner in its sole and absolute discretion, provided that as a condition to such consent being granted the lender will be required to enter into an arrangement with the Partnership and the General Partner to exchange or redeem for the CHC Shares Amount any Partnership Units in which a security interest is held simultaneously with the time at which such lender would be deemed to be a partner in the Partnership for purposes of allocating liabilities to such lender under Section 752 of the Code.

F. Prior to the first anniversary of the Effective Date, no Limited Partner shall transfer all or any portion of its Partnership Interest to any transferee without the consent of the General Partner, which consent may be withheld in its sole and absolute discretion; provided, however, that any Limited Partner may, at any time (whether prior to or after such first anniversary), without the consent of the General Partner, (i) transfer all or any portion of its Partnership Interest to the General Partner, (ii) transfer all or an portion of its Partnership Interest to an Affiliate, another Original Limited Partner or to an Immediate Family member, subject to the provisions of
Section 11.6, or in the case of an Original Limited Partner, to such Original Limited Partner's shareholders, members, partners or beneficiaries, as the case may be, (iii) transfer all or any portion of its Partnership Interest to a trust for the benefit of a charitable beneficiary or to a charitable foundation, subject to the provisions of Section 11.6 and (iv) subject to the provisions of
Section 11.6, pledge (a "Pledge") all or any portion of its Partnership Interest to a lending institution, which is not an Affiliate or such Limited Partner, as collateral or security for a bona fide loan or other extension of credit, and transfer such pledged Partnership Interest to such lending institution in connection with the exercise of remedies under such loan or extension or credit.

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Section 11.4 Substituted Limited Partners

A. No Limited Partner shall have the right to substitute a transferee as a Limited Partner in his place. The General Partner shall, however, have the right to consent to the admission of a transferee of the interest of a Limited Partner pursuant to this Section 11.4 as a Substituted Limited partner, which consent may be given or withheld by the General Partner in its sole and absolute discretion. The General Partner's failure or refusal to permit a transferee of any such interests to become a Substituted Limited Partner shall not give rise to any cause of action against the Partnership or any Partner.

B. A transferee who has been admitted as a Substituted Limited Partner in accordance with this Article 11 shall have all the rights and powers and be subject to all the restrictions and liabilities of a Limited Partner under this Agreement. The admission of any transferee as a substituted Limited Partner shall be subject to the transferee executing and delivering to the Partnership an acceptance of all of the terms and conditions of this Agreement (including, without limitation, the provisions of Section 2.4) and such other documents or instruments as may be required to effect the admission.

Section 11.5 Assignees

If the General Partner, in its sole and absolute discretion, does not consent to the admission of any permitted transferee under Section 11.3 as a Substituted Limited Partner, as described in Section 11.4, such transferee shall be considered an Assignee for purposes of this Agreement. An Assignee shall be deemed to have had assigned to it, and shall be entitled to receive distributions from the Partnership and the share of Net Income, Net Losses, Recapture Income, and any other items of gain, loss, deduction and credit of the Partnership attributable to the Partnership Units assigned to such transferee, and shall be entitled to exercise Redemption Rights to the extent granted in Section 8.6, but shall not be deemed to be a holder of Partnership Units for any other purpose under this Agreement, and shall not be entitled to vote such Partnership Units in any matter presented to the Limited Partners for a vote (such Partnership Units being deemed to have been voted on such matter in the same proportion as all other Partnership Units held by Limited Partners are voted). In the event any such transferee desires to make a further assignment of any such Partnership Units, such transferee shall be subject to all the provisions of this Article 11 to the same extent and in the same manner as any Limited Partner desiring to make an assignment of Partnership Units.

Section 11.6 General Provisions

A. No Limited Partner may withdraw from the Partnership other than as a result of a permitted transfer of all of such Limited Partner's Partnership Units in accordance with this Article 11 or pursuant to redemption of all of its Partnership Units under Section 8.6.

B. Any Limited Partner who shall transfer all of his Partnership Units in a transfer permitted pursuant to this Article 11 shall cease to be a Limited Partner upon the admission of all

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Assignees of such Partnership Units as Substitute Limited Partners. Similarly, any Limited Partner who shall transfer all of his Partnership Units pursuant to a redemption of all of his Partnership Units under Section 8.6 shall cease to be a Limited Partner.

C. Transfers pursuant to this Article 11 may only be made on the first day of a fiscal quarter of the Partnership, unless the General Partner otherwise agrees.

D. If any Partnership Interest is transferred or assigned in compliance with the provisions of this Article 11 or redeemed or transferred pursuant to
Section 8.6, on any day other than the first day of a Partnership Year, then Net Income, Net Losses, each item thereof and all other items attributable to such interest for such Partnership Year shall be divided and allocated between the transferor Partner and the transferee Partner by taking into account their varying interests during the fiscal year in accordance with Section 706(d) of the Code, using the interim closing of the books method (unless the General Partner, in its sole and absolute discretion, elects to adopt a daily, weekly or monthly proration method, in which event Net Income, Net Losses and each item thereof for such Partnership Year shall be prorated based upon the applicable period selected by the General Partner). Solely for purposes of making such allocations, each of such items for the calendar month in which the transfer or assignment occurs shall be allocated to the transferee Partner, and none of such items for the calendar month in which a redemption occurs shall be allocated to the Redeeming Partner. All distributions of the Partner Distribution Amount attributable to such Partnership Unit with respect to which the Partnership Record Date is before the date of such transfer, assignment or redemption shall be made to the transferor Partner or the Redeeming Partner, as the case may be, and, in the case of a transfer or assignment other than a redemption, all distributions of the Partner Distribution Amount thereafter attributable to such Partnership Unit shall be made to the transferee Partner.

ARTICLE 12
ADMISSION OF PARTNERS

Section 12.1 Admission of Successor General Partner

A successor to all of the General Partner Interest pursuant to Section 11.2.C hereof who is proposed to be admitted as a successor General Partner shall be admitted to the Partnership as the General Partner, effective upon such transfer. Any such transferee shall carry on the business of the Partnership without dissolution. In each case, the admission shall be subject to the successor General Partner executing and delivering to the Partnership an acceptance of all of the terms and conditions of this Agreement and such other documents or instruments as may be required to effect the admission. In the case of such admission on any day other than the first day of a Partnership Year, all items attributable to the General Partner Interest for such Partnership Year shall be allocated between the transferring General Partner and such successor as provided in Section 11.6.D hereof.

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Section 12.2 Admission of Additional Limited Partners

A. A Person who makes a Capital Contribution to the Partnership in accordance with this Agreement (or who exercises an option to receive Partnership Units) shall be admitted to the Partnership as an Additional Limited Partner only upon furnishing to the General Partner (i) evidence of acceptance in form satisfactory to the General Partner of all of the terms and conditions of this Agreement, including, without limitation, the power of attorney granted in Section 2.4 hereof and (ii) such other documents or instruments as may be required in the discretion of the General Partner in order to effect such Person's admission as an Additional Limited Partner.

B. Notwithstanding anything to the contrary in this Section 12.2, no Person shall be admitted as an Additional Limited Partner without the consent of the General Partner, which consent may be given or withheld in the General Partner's sole and absolute discretion. The admission of any Person as an Additional Limited Partner shall become effective on the date upon which the name of such Person is recorded on the books and records of the Partnership, following the consent of the General Partner to such admission.

C. If any Additional Limited partner is admitted to the Partnership on any day other than the first day of a Partnership Year, then Net Income, Net Losses, each item thereof and all other items allocable among Partners and Assignees for such Partnership Year shall be allocated among such Additional Limited Partner and all other Partners and Assignees by taking into account their varying interests during the Partnership Year in accordance with Section
706(d) of the Code, using the interim closing of the books method. Solely for purposes of making such allocations, each of such items for the calendar month in which an admission of any Additional Limited Partner occurs shall be allocated among all the Partners and Assignees including such Additional Limited Partner. All distributions of the Partner Distribution Amount with respect to which the Partnership Record Date is before the date of such admission shall be made solely to Partners and Assignees other than the Additional Limited Partner, and all distributions of the Partner Distribution Amount thereafter shall be made to all the Partners and Assignees including such Additional Limited Partner.

Section 12.3 Amendment of Agreement and Certificate of Limited
Partnership

For the admission to the Partnership of any Partner, the General Partner shall take all steps necessary and appropriate under the Act to amend the records of the Partnership and, if necessary, to prepare as soon as practical an amendment of this Agreement and, if required by law, shall prepare and file an amendment to the Certificate and may for this purpose exercise the power of attorney granted pursuant to Section 2.4 hereof.

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ARTICLE 13
DISSOLUTION, LIQUIDATION AND TERMINATION

Section 13.1 Dissolution

Except as set forth in this Article 13, no Partner shall have the right to dissolve the Partnership. The Partnership shall not be dissolved by the admission of Substituted Limited Partners or Additional Limited Partners or by the admission of a successor General Partner in accordance with the terms of this Agreement. Upon the withdrawal of the General Partner, any successor General Partner shall continue the business of the Partnership. The Partnership shall dissolve, and its affairs shall be wound up, upon the first to occur of any of the following ("Liquidating Events"):

A. the expiration of its term as provided in Section 2.5 hereof;

B. (i) a final and non-appealable judgment is entered by a court of competent jurisdiction ruling that the General Partner is bankrupt or insolvent, or a final and non-appealable order for relief is entered by a court with appropriate jurisdiction against the General Partner, in each case under any federal or state bankruptcy or insolvency laws as now or hereafter in effect, unless prior to the entry of such order or judgment all of the remaining Partners agree in writing to continue the business of the Partnership and to the appointment, effective as of a date prior to the date of such order or judgment, of a substitute General partner, or (ii) any other event of withdrawal of the General Partner, as defined in the Act (other than an event of bankruptcy), unless, within ninety (90) days after such event of withdrawal a majority of the Partnership Units held by the remaining Partners agree in writing to continue the business of the Partnership and to the appointment, effective as of the date of withdrawal, of a successor General Partner;

C. an election to dissolve the Partnership made by the General Partner, in its sole and absolute discretion;

D. entry of a decree of judicial dissolution of the Partnership pursuant to the provisions of the Act; or

E. the sale of all or substantially all of the assets and properties of the Partnership.

Section 13.2 Winding Up

A. Upon the occurrence of a Liquidating Event, the Partnership shall continue solely for the purposes of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors and Partners. No Partner shall take any action that is inconsistent with, or not necessary to or appropriate for, the winding up of the Partnership's business and affairs. The General Partner, or, in the event there is no remaining General Partner, any Person elected by a majority in interest of the Limited Partners (the General Partner or such other Person being referred to herein as the "Liquidator") shall be responsible for overseeing the

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winding up and dissolution of the Partnership and shall take full account of the Partnership's liabilities and property and the Partnership property shall be liquidated as promptly as is consistent with obtaining the fair value thereof, and the proceeds therefrom (which may, to the extent determined by the General Partner, include shares of stock in the General Partner) shall be applied and distributed in the following order:

(1) First, to the payment and discharge of all of the Partnership's debts and liabilities to creditors other than the Partners;

(2) Second, to the payment and discharge of all of the Partnership's debts and liabilities to the General Partner;

(3) Third, to the payment and discharge of all of the Partnership's debts and liabilities to the other Partners; and

(4) The balance, if any, to the General Partner and Limited Partners in accordance with their Capital Accounts, after giving effect to all contributions, distributions, and allocations for all periods.

The General Partner shall not receive any additional compensation for any services performed pursuant to this Article 13.

B. Notwithstanding the provisions of Section 13.2.A hereof which require liquidation of the assets of the Partnership, but subject to the order of priorities set forth therein, if prior to or upon dissolution of the Partnership the Liquidator determines that an immediate sale of part or all of the Partnership's assets would be impractical or would cause undue loss to the Partners, the Liquidator may, in its sole and absolute discretion, defer for a reasonable time the liquidation of any assets except those necessary to satisfy liabilities of the Partnership (including to those Partners as creditors) and/or distribute to the Partners, in lieu of cash, as tenants in common and in accordance with the provisions of Section 13.2.A hereof, undivided interests in such Partnership assets as the Liquidator deems not suitable for liquidation. Any such distributions in kind shall be made only if, in the good faith judgment of the Liquidator, such distributions in kind are in the best interest of the Partners, and shall be subject to such conditions relating to the disposition and management of such properties as the Liquidator deems reasonable and equitable and to any agreements governing the operation of such properties at such time. The Liquidator shall determine the fair market value of any property distributed in kind using such reasonable method of valuation as it may adopt.

C. In the discretion of the Liquidator, a pro rata portion of the distributions that would otherwise be made to the General Partner and Limited Partners pursuant to this Article 13 may be:

(1) distributed to a trust established for the benefit of the General Partner and Limited Partners for the purposes of liquidating Partnership assets, collecting amounts owed to

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the Partnership, and paying any contingent or unforeseen liabilities or obligations of the Partnership or of the General Partner arising out of or in connection with the Partnership. The assets of any such trust shall be distributed to the General Partner and Limited Partners from time to time, in the reasonable discretion of Liquidator, in the same proportions as the amount distributed to such trust by the Partnership would otherwise have been distributed to the General Partner and Limited Partners pursuant to this Agreement; or

(2) withheld or escrowed to provide a reasonable reserve for Partnership liabilities (contingent or otherwise) and to reflect the unrealized portion of any installment obligations owed to the partnership, provided that such withheld or escrowed amounts shall be distributed to the General Partner and Limited Partners in the manner and order of priority set forth in Section 13.2.A as soon as practicable.

Section 13.3 Compliance with Timing Requirements of Regulations

In the event the Partnership is "liquidated" within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made pursuant to this Article 13 to the General Partner and Limited Partners who have positive Capital Accounts in compliance with Regulations Section 1.704-1(b)(2)(ii)(b)(2). If any Partner has a deficit balance in his Capital Account (after giving effect to all contributions, distributions and allocations for all taxable years, including the year during which such liquidation occurs), such Partner shall have no obligation to make any contribution to the capital of the Partnership with respect to such deficit, and such deficit shall not be considered a debt owed to the Partnership or to any other Person for any purpose whatsoever.

Section 13.4 Deemed Distribution and Recontribution

Notwithstanding any other provision of this Article 13, in the event the Partnership is considered liquidated within the meaning of Regulations Section
1.704-1(b)(2)(ii)(g) but no Liquidating Event has occurred, the Partnership's property shall not be liquidated, the Partnership's liabilities shall not be paid or discharged, and the Partnership's affairs shall not be wound up. Instead, for federal income tax purposes and purposes of maintaining Capital Accounts pursuant to Exhibit A hereto, the Partnership shall be deemed to have distributed the property in kind to the General Partner and Limited Partners, who shall be deemed to have assumed and taken such property subject to all Partnership liabilities, all in accordance with their respective Capital Accounts. Immediately thereafter, the General Partner and Limited Partners shall be deemed to have recontributed the Partnership property in kind to the Partnership, which shall be deemed to have assumed and taken such property subject to all such liabilities.

Section 13.5 Rights of Limited Partners

Except as otherwise provided in this Agreement, each Limited Partner shall look solely to the assets of the Partnership for the return of its Capital Contributions and shall have no right or power to demand or receive property other than cash from the Partnership. Except as otherwise

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provided in this Agreement, no Limited Partner shall have priority over any other Partner as to the return of its Capital Contributions, distributions, or allocations.

Section 13.6 Notice of Dissolution

In the event a Liquidating Event occurs or an event occurs that would, but provisions of an election or objection by one or more Partners pursuant to
Section 13.1, result in a dissolution of the Partnership, the General Partner shall, within thirty (30) days thereafter, provide written notice thereof to each of the Partners.

Section 13.7 Termination of Partnership and Cancellation of Certificate
of Limited Partnership

Upon the completion of the liquidation of the Partnership cash and property as provided in Section 13.2 hereof, the Partnership shall be terminated, a certificate of cancellation shall be filed, and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of Delaware shall be canceled and such other actions as may be necessary to terminate the Partnership shall be taken.

Section 13.8 Reasonable Time for Winding-Up

A reasonable time shall be allowed for the orderly winding-up of the business and affairs of the Partnership and the liquidation of its assets pursuant to Section 13.2 hereof, in order to minimize any losses otherwise attendant upon such winding-up, and the provisions of this Agreement shall remain in effect between the Partners during the period of liquidation.

Section 13.9 Waiver of Partition

Each Partner hereby waives any right to partition of the Partnership property.

Section 13.10 Liability of the Liquidator

The Liquidator shall be indemnified and held harmless by the Partnership from and against any and all claims, demands, liabilities, costs, damages and cause of action of any nature whatsoever arising out of or incidental to the Liquidator's taking of an action authorized under or within the scope of this Agreement; provided, however, that the Liquidator shall not be entitled to indemnification, and shall not be held harmless, where the claim, demand, liability, cost, damage or cause of action at issue arises out of:

(i) a matter entirely unrelated to the Liquidator's action or conduct pursuant to the provisions of this Agreement; or

(ii) the proven willful misconduct or gross negligence of the Liquidator.

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ARTICLE 14
AMENDMENT OF PARTNERSHIP AGREEMENT; MEETINGS

Section 14. Amendments

A. Amendments to this Agreement may be proposed by the General Partner or by any Limited Partners holding twenty-five percent (25%) or more of the Partnership Interests. Following such proposal, the General Partner shall submit any proposed amendment to the Limited Partners. Subject to Section 14.2.B, the General Partner shall seek the written vote of the Partners on the proposed amendment or shall call a meeting to vote thereon and to transact any other business that it may deem appropriate. For purposes of obtaining a written vote, the General Partner may require a response within a reasonable specified time, but not less than fifteen (15) days, and failure to respond in such time period shall constitute a vote which is consistent with the General Partner's recommendation with respect to the proposal. Except as provided in Section 14.1.B, 14.1.C or 14.1.D, a proposed amendment shall be adopted and be effective as an amendment hereto if it is approved by the General Partner and it receives the Consent of Partners holding a majority of the Percentage Interests of the Limited Partners (including Limited Partner Interests held by the General Partner).

B. Notwithstanding Section 14.1.A, the General Partner shall have the power, without the consent of the Limited Partners, to amend this Agreement as may be required to facilitate or implement any of the following purposes:

(1) to add to the obligations of the General Partner or surrender any right or power granted to the General Partner or any Affiliate of the General Partner for the benefit of the Limited Partners;

(2) to reflect the admission, substitution, termination, or withdrawal of Partners in accordance with this Agreement;

(3) to set forth the designations, rights, powers, duties, and preferences of the holders of any additional Partnership Interests issued pursuant to Section 4.1 hereof;

(4) to reflect a change that does not adversely affect any of the Limited Partners in any material respect, or to cure any ambiguity, correct or supplement any provision in this Agreement not inconsistent with law or with other provisions, or make other changes with respect to matters arising under this Agreement that will not be inconsistent with law or with the provisions of this Agreement; and

(5) to satisfy any requirements, conditions, or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law.

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The General Partner shall provide notice to the Limited Partners when any action under this Section 14.1.B is taken.

C. Notwithstanding Section 14.1.A and 14.1.B hereof, this Agreement shall not be amended without the Consent of each Partner adversely affected if such amendment would (i) convert a Limited Partner's interest in the Partnership into a general partner interest, (ii) modify the limited liability of a Limited Partner in a manner adverse to such Limited Partner, (iii) alter the rights of the Partner to receive distributions pursuant to Article 5, or the allocations specified in Article 6 (except as permitted pursuant to Section 4.1 and Section 14.1.B(3) hereof) in a manner adverse to such Partner, (iv) alter or modify the Redemption Right and CHC Shares Amount as set forth in Sections 8.6, and related definitions hereof, (v) cause the termination of the Partnership prior to the time set forth in Sections 2.5 or 13.1, or (vi) amend this Section 14.1.C. Further, no amendment may alter the restrictions on the General Partner's authority set forth in Section 7.3 without the Consent specified in that section.

D. Notwithstanding Section 14.1.A or Section 14.1.B hereof, the General Partner shall not amend Sections 4.1.A, 7.5, 7.6, 11.2 or 14.2 without the Consent of a majority of the Percentage Interests of the Limited Partners including Limited Partnership Interests held directly or indirectly by the General Partner.

Section 14.2 Meetings of the Partners

A. Meetings of the Partners may be called by the General Partner and shall be called upon the receipt by the General Partner of a request by Limited Partners holding twenty-five percent (25%) or more of the Partnership Interests. The call shall state the nature of the business to be transacted. Notice of any such meeting shall be given to all Partners not less than seven (7) days nor more than thirty (30) days prior to the date of such meeting. Partners may vote in person or by proxy at such meeting. Whenever the vote or Consent of the Partners is permitted or required under this Agreement, such vote or Consent may be given at a meeting of the Partners or may be given in accordance with the procedure prescribed in Section 14.1.A hereof. Except as otherwise expressly provided in this Agreement, the Consent of holders of a majority of the Percentage Interests shall be that Consent required to obtain approval by the Partnership on all Partnership votes.

B. Any action required or permitted to be taken at a meeting of the Partners may be taken without a meeting if a written consent setting forth the action so taken is signed by a majority of the Percentage Interests of the Partners (or such other percentage as is expressly required by this Agreement such consent may be in one instrument or in several instruments, and shall have the same force and effect as a vote of a majority of the Percentage Interests of the Partners (or such other percentage as is expressly required by this Agreement). Such consent shall be filed with the General Partner. An action so taken shall be deemed to have been taken at a meeting held on the effective date so certified.

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C. Each Limited Partner may authorize any Person or Persons to act for him by proxy on all matters in which a Limited Partner is entitled to participate, including waiving notice of any meeting, or voting or participating at a meeting. Every proxy must be signed by the Limited Partner or his attorney-in-fact. No proxy shall be valid after the expiration of eleven (11) months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the Limited Partner executing it, such revocation to be effective upon the Partnership's receipt of written notice of such revocation form the Limited Partner executing such proxy.

D. Each meeting of Partners shall be conducted by the General Partner or such other Person as the General Partner may appoint pursuant to such rules for the conduct of the meeting as the General Partner or such other Person deems appropriate in its sole discretion. Without limitation, meetings of Partners may be conducted in the same manner as meetings of the shareholders of the General Partner and may be held at the same time as, and as part of, meetings of the shareholders of the General Partner.

ARTICLE 15
GENERAL PROVISIONS

Section 15.1 Addresses and Notice

Any notice, demand, request or report required or permitted to be given or made to a Partner or Assignee under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication to the Partner or Assignee. Such communications shall be deemed sufficiently given, served, sent or received for all purposes at such time as delivered to the addressee (with the return receipt or delivery receipt being deemed conclusive evidence of such delivery) or at such time as delivery is refused by the addressee upon presentation.

Section 15.2 Titles and Captions

All article or section titles or captions in this Agreement are for convenience only. They shall not be deemed part of this Agreement and in no way define, limit, extend or describe the scope or intent of any provisions hereof. Except as specifically provided otherwise, references to "Articles" and "Sections" are to Articles and Sections of this Agreement.

Section 15.3 Pronouns and Plurals

Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

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Section 15.4 Further Action

The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

Section 15.5 Binding Effect

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

Section 15.6 Creditors

Other than as expressly set forth herein with respect to the Indemnitees, none of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

Section 15.7 Waiver

No failure by any partner to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach or any other covenant, duty, agreement or condition.

Section 15.8 Counterparts

This Agreement may be executed in counterparts, all of which together shall constitute one agreement binding on an the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement immediately upon affixing its signature hereto.

Section 15.9 Applicable Law

This Agreement shall be construed and enforced in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law.

Section 15.10 Invalidity of Provisions

If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

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Section 15.11 Entire Agreement

This Agreement contains the entire understanding and agreement among the Partners with respect to the subject matter hereof and supersedes any other prior written or oral understandings or agreements among them with respect thereto.

Section 15.12 No Rights as Shareholders

Nothing contained in this Agreement shall be construed as conferring upon the holders of the Partnership Units any rights whatsoever as shareholders of the General Partner, including without limitation any right to receive dividends or other distributions made to shareholders of the General Partner or to vote or to consent or to receive notice as shareholders in respect of any meeting of shareholders for the election of directors of the General Partner or any other matter.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under seal as of the date first written above.

AS GENERAL PARTNER:

CAVANAUGHS HOSPITALITY CORPORATION,
a Washington corporation

By
Donald K. Barbieri, President

LIMITED PARTNERS:

NORTH RIVER DRIVE COMPANY, a
Washington corporation

By

Richard L. Barbieri, Vice President

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EXHIBIT A

CAPITAL ACCOUNT MAINTENANCE

1. Capital Accounts of the Partners.

A. The Partnership shall maintain for each Partner a separate Capital Account in accordance with the rules of Regulations Section 1.704-1(b)(2)(iv). Such Capital Account shall be increased by (i) the amount of all Capital Contributions and any other deemed contributions made by such Partner to the Partnership pursuant to this Agreement and (ii) all items of Partnership income and gain (including income and gain exempt from tax) computed in accordance with
Section 1.B hereof and allocated to such Partner pursuant to Section 6.1.A of the Agreement and Exhibit B hereof, and decreased by (x) the amount of cash or the Carrying Value of all actual and deemed distributions of cash or property made to such partner pursuant to this Agreement (reduced by any indebtedness either assumed by such Partner upon such distribution or to which such property is subject at the time of distribution as determined under Section 752 of the Code and the Regulations thereunder) and (y) all items of Partnership deduction and loss computed in accordance with Section 1.B hereof and allocated to such Partner pursuant to Section 6.1.B of the Agreement and Exhibit B hereof.

B. For purposes of computing the amount of any item of income, gain, deduction or loss to be reflected in the Partners' Capital Accounts, unless otherwise specified in this Agreement, the determination, recognition and classification of any such item shall be the same as its determination, recognition and classification for federal income tax purposes determined in accordance with Section 703(a)(1) of the Code (for this purpose all items of income, gain, loss or deduction required to be stated separately pursuant to
Section 703(a)(1) of the Code shall be included in taxable income or loss), with the following adjustments:

(1) Except as otherwise provided in Regulations Section 1.704-
1(b)(2)(iv)(m), the computation of all items of income, gain, loss and deduction shall be made without regard to any election under Section 754 of the Code which may be made by the Partnership, provided that the amounts of any adjustments to the adjusted bases of the assets of the Partnership made pursuant to Section 734 of the Code as a result of the distribution of property by the Partnership to a Partner (to the extent that such adjustments have not previously been reflected in the Partners' Capital Accounts) shall be reflected in the Capital Accounts of the Partners in the manner and subject to the limitations prescribed in Regulations Section 1.704-1(b)(2)(iv)(m)(4).

(2) The computation of all items of income, gain, and deduction shall be made without regard to the fact that items described in Sections 705(a)(1)(B) or 705(a)(2)(B) of the Code are not includable gross income or are neither currently deductible nor capitalized for federal income tax purposes.

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(3) Any income, gain or loss attributable to the taxable disposition of any Partnership property shall be determined as if the adjusted basis of such property as of such date of disposition were equal in amount to the Partnership's Carrying Value with respect to such property as of such date.

(4) In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such fiscal year.

(5) In the event the Carrying Value of any Partnership Asset is adjusted pursuant to Section 1.D hereof, the amount of any such adjustment shall be taken into account as gain or loss from the disposition of such asset.

(6) Any items specifically allocated under Section 2 of Exhibit B hereof shall not be taken into account.

C. Generally, a transferee (including an Assignee) of a Partnership Unit shall succeed to a pro rata portion of the Capital Account of the transferor; provided, however, that, if the transfer causes a termination of the Partnership under Section 708(b)(1)(B) of the Code, the Partnership's properties shall be deemed solely for federal income tax purposes, to have been contributed to a new partnership in exchange for interests therein and then liquidated. In such event, the Carrying Values of the Partnership properties shall be adjusted, if appropriate, in accordance with Section 1.D(2) hereof. The Capital Account of such reconstituted Partnership shall be maintained in accordance with principles of this Exhibit A.

D. (1) Consistent with the provisions of Regulations Section 1.704-1(b)(2)(iv)(f), and as provided in Section 1.D(2), the Carrying Values of all Partnership assets shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as of the times of the adjustments provided in Section 1.D(2) hereof, as if such Unrealized Gain or Unrealized Loss had been recognized on an actual sale of each such property and allocated pursuant to Section 6.1 of the Agreement.

(2) Such adjustments shall be made as of the following times: (a) immediately prior to the acquisition of an additional interest in the Partnership by any new or existing Partner in exchange for more than a de minimis Capital Contribution; (b) immediately prior to the distribution by the Partnership to a Partner of more than a de minimis amount of property as consideration for an interest in the Partnership; and (c) immediately prior to the liquidation of the Partnership within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); provided, however, that adjustments pursuant to clauses (a) and (b) above shall be made only if the General Partner determines that such adjustments are necessary or

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appropriate to reflect the relative economic interests of the Partners in the Partnership.

(3) In accordance with Regulations Section 1.704-1(b)(2)(iv)(e), the Carrying Value of Partnership assets distributed in kind shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as of the time any such asset is distributed.

(4) In determining Unrealized Gain or Unrealized Loss for purposes of this Exhibit A, the aggregate cash amount and fair market value of all Partnership assets (including cash or cash equivalents) shall be determined by the General Partner using such reasonable method of valuation as it may adopt, or in the case of a liquidating distribution pursuant to Article 13 of the Agreement, shall be determined and allocated by the Liquidator using such reasonable methods of valuation as it may adopt. The General Partner, or the Liquidator, as the case may be, shall allocate such aggregate value among the assets of the Partnership (in such manner as it determines in its sole and absolute discretion to arrive at a fair market value for individual properties).

E. The provisions of this Agreement (including this Exhibit A and the other Exhibits to this Agreement) relating to the maintenance of Capital Accounts are intended to comply with Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities which are secured by contributed or distributed property or which are assumed by the Partnership, the General Partner, or the Limited Partners) are computed in order to comply with such Regulations, the General Partner may make such modification without regard to Article 14 of the Agreement, provided that it is not likely to have a material effect on the amounts distributable to any Person pursuant to Article 13 of the Agreement upon the dissolution of the Partnership. The General Partner also shall (i) make any adjustments that are necessary or appropriate to maintain equality between the Capital Accounts of the Partners and the amount of the Partnership capital reflected on the Partnership's balance sheet, as computed for book purposes, in accordance with Regulation's balance sheet, as computed for book purposes, in accordance with Regulations Section 1.704-1(b)(2)(iv)(q), and (ii) make any appropriate modifications in the event unanticipated events might otherwise cause this Agreement not to comply with Regulations Section 1.704-1(b).

2. No Withdrawal.

No Partner shall be entitled to withdraw any part of his Capital Contribution or his Capital Account or to receive any distribution from the Partnership, except as provided in Articles 5, 7 and 13 of the Agreement.

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EXHIBIT B

SPECIAL ALLOCATION RULES

1. Special Allocation Rules.

Notwithstanding any other provision of the Agreement or this Exhibit B, the following special allocations shall be made in the following order:

A. Minimum Gain Chargeback. Notwithstanding the provisions of Section 6.1 of the Agreement or any other provisions of this Exhibit B, if there is a net decrease in the Partnership Minimum Gain during any Partnership Year, each Partner shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain, as determined under Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(f)(6). This Section 1.A is intended to comply with the minimum gain chargeback requirements in Regulations Section 1.704-2(f) and for purposes of this Section 1.A only, each Partner's Adjusted Capital Account Deficit shall be determined prior to any other allocations pursuant to Section 6.1 of this Agreement with respect to such Partnership Year and without regard to any decrease in Partner Minimum Gain during such Partnership Year.

B. Partnership Minimum Gain Chargeback. Notwithstanding any other provision of Section 6.1 of this Agreement or any other provisions of this

Exhibit B (except Section 1.A hereof), if there is a net decrease in Partner Minimum Gain attributable to a Partner Nonrecourse Debt during any Partnership Year, each Partner who has a share of the Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(5), shall be specifically allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Partner's share of the net decrease in Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each General Partner and Limited Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(i)(4). This Section 1.B is intended to comply with the minimum gain chargeback requirement in such Section of the Regulations and shall be interpreted consistently therewith. Solely for purposes of this Section 1.B, each Partner's Adjusted Capital Account Deficit shall be determined prior to any other allocations pursuant to Section 6.1 of the Agreement or this Exhibit with respect to such Partnership Year, other than allocations pursuant to Section 1.A hereof.

C. Qualified Income Offset. In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), and after giving effect to the allocations required under Section 1.A and 1.B hereof, such Partner has an Adjusted Capital Account

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Deficit, items of Partnership income and gain (consisting of a pro rata portion of each item of Partnership income, including gross income and gain for the Partnership Year) and shall be specifically allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Regulations, its Adjusted Capital Account Deficit created by such adjustments, allocations or distributions as quickly as possible. This Section 1.C is intended to constitute a "qualified income offset" under Regulations Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

D. Nonrecourse Deductions. Nonrecourse Deductions for any Partnership Year shall be allocated to the Partners in accordance with their respective Percentage Interests. If the General Partner determines in its good faith discretion that the Partnership's Nonrecourse Deductions must be allocated in a different ratio to satisfy the safe harbor requirements of the Regulations promulgated under Section 704(b) of the Code, the General Partner is authorized, upon notice to the Limited Partners, to revise the prescribed ratio for such Partnership Year to the numerically closest ratio which would satisfy such requirements.

E. Partner Nonrecourse Deductions. Any Partner Nonrecourse Deductions for any Partnership Year shall be specifically allocated to the Partner who bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-2(b)(4) and 1.704-2(i).

F. Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) or 743(b) of the Code is required, pursuant to Regulations Section 1.704-1(b)(2)(iv(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such item of gain or loss shall be specifically allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Regulations.

2. Allocations for Tax Purposes.

A. Except as otherwise provided in this Section 2, for federal income tax purposes, each item of income, gain, loss and deduction shall be allocated among the Partners in the same manner as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to Section 6.1 of the Agreement and
Section 1 of this Exhibit B.

B. In an attempt to eliminate Book-Tax Disparities attributable to a Contributed Property or Adjusted Property, items of income, gain, loss and deduction shall be allocated for federal income tax purposes among the Partners as follows:

(i) (a) In the case of a Contributed Property, such items attributable thereto shall be allocated among the Partners consistent with the principles of Section 704(c) of the Code to take into account the variation between the

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704(c) Value of such property and its adjusted basis at the time of contribution (taking into account Section 2.C of this Exhibit B), and

(b) any item of residual Gain or Residual Loss attributable to a Contributed Property shall be allocated among the Partners in the same manner as its correlative item of "Book" gain or loss is allocated pursuant to Section 6.1 of the Agreement and Section 1 of this Exhibit B.

(ii) (a) In the case of an Adjusted Property, such items shall

(1) first, be allocated among the Partners in a manner consistent with the principles of Section 704(c) of the Code to take into account the Unrealized Gain or Unrealized Loss attributable to such property and the allocations thereof pursuant to Exhibit A, and

(2) second, in the event such property was originally a Contributed Property, be allocated among the Partners in a manner consistent with Section 2.B(1) of this Exhibit B; and

(b) any item of Residual Gain or Residual Loss attributable to an Adjusted Property shall be allocated among the Partners in the same manner its correlative item of "book" gain or loss is allocated pursuant to Section 6.1 of the Agreement and Section 1 of the Exhibit B.

(iii) all other items of income, gain, loss and deduction shall be allocated among the Partner the same manner as their correlative item of "book" gain or loss is allocated pursuant to Section 6.1 of the Agreement and Section 1 of the Exhibit B.

C. To the extent Treasury Regulations promulgated pursuant to Section 704(c) of the Code permit a Partnership to utilize alternative methods to eliminate the disparities between the Carrying Value of property and its adjusted basis, the General Partner shall, subject to the following, have the authority to elect the method to be used by the Partnership and such election shall be binding on all Partners. With respect to the Contributed Property transferred to the Partnership on or about the Effective date, the Partnership shall elect to use the "traditional method" set forth in Treasury Regulations Section 1.704-3(b).

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EXHIBIT C

FORM OF NOTICE OF REDEMPTION

The undersigned hereby irrevocably (i) redeems _____ Partnership Units in Cavanaughs Hospitality Limited Partnership in accordance with the terms of the Limited Partnership Agreement of Cavanaughs Hospitality Limited Partnership and the Redemption Right referred to therein, (ii) surrenders such Limited Partnership Units and all right, title and interest therein, and (iii) directs that the Adjusted Cash Amount or CHC Shares Amount multiplied by the Other Assets Value Factor (as determined by the General Partner) deliverable upon exercise of the Redemption Right be delivered to the addresses specified below, and if CHC Shares are to be delivered, such CHC Shares be registered or placed in the name(s) and at the address(es) specified below. The undersigned hereby represents, warrants and certifies, that the undersigned (a) has marketable and unencumbered title to such Partnership Units, free and clear of the rights of or interests of any other person or entity, (b) has the full right, power and authority to redeem and surrender such Partnership Units as provided herein, and
(c) has obtained the consent or approval of all persons or entities, if any, having the right to consult or approve such redemption and surrender.

Dated:
Name of Limited Partner:

(Signature of Limited Partner)

(Street Address)

(City, State, Zip Code)

Signature Guaranteed by:

If CHC Shares are to be issued, issue to:

Name:
Please insert social security or identifying number:

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EXHIBIT D

LIST OF LIMITED PARTNERS

1. North River Drive Company, a Washington corporation, 201 W. North River Drive, Spokane, Washington, 99201.(Original Limited Partner).

2. Cavanaughs Hospitality Corporation, a Washington corporation, 201 W. North River Drive, Spokane, Washington, 99201 (Original Limited Partner).

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EXHIBIT 10.13

HOTEL LEASE

THIS LEASE, dated for reference purposes September 15, 1997, is between VA-ALTA, Inc., a Washington corporation ("Lessor") and GOODALE AND BARBIERI COMPANIES (which is in the process of changing its name to Cavanaughs Hospitality Corporation) ("Tenant").

1. Property. Lessor hereby leases to Tenant, upon the terms and conditions herein set forth, the real property known as the Yakima Holiday Inn (the "Hotel") situated at 9 North Ninth Street, Yakima, WA 98901, legally described on Exhibit I attached hereto (the "Property"). The term "Property" includes land, building, improvements, and the personal property items described in Section 8(b) below. In the event Exhibit I is not attached in accurate or complete form to this document at execution, the parties authorize the Title Company described below to prepare and attach the correct Exhibit I.

2. Use of Property; Environmental Matters. The Property shall be used for operation as a hotel, guest services, restaurant and banquet/meeting facility and for no other purpose (collectively "Hotel Use") without the prior consent of Lessor. Tenant shall not allow use of the Property in a manner which would increase insurance premiums, or for any illegal purpose. Tenant shall comply with all governmental rules, orders, regulations, or requirements relating to the use and occupancy of the Property. Tenant shall not allow the presence, use, storage or disposal of any hazardous or toxic waste or materials on the Property at any time other than in full compliance with all applicable laws, rules, and regulations. Hazardous and/or toxic waste or materials shall include any substance, waste, or material which is designated as a Hazardous Substance under the Comprehensive Environmental Response, Compensation and Liability Act (42 USC Section 9601 et seq.), the Model Toxics Control Act, revised Code of Washington Section 70.105D), or under any other applicable law. Tenant agrees to defend, indemnify and hold Lessor harmless from and against any liabilities, obligations, damages, costs, and expenses (including attorneys' fees incurred prior to trial, at trial and upon appeal) incurred as a result of any hazardous or toxic waste or material having been used, stored, or disposed of on the Property or violations of applicable laws, rules and regulations relating to the use of the Property during the term of this Lease. This indemnity shall survive termination of this Lease. Lessor warrants that the Property does not contain any hazardous or toxic waste or materials or asbestos containing material as those terms are defined above as of the commencement of the term of this Lease ("Existing Hazardous Substances") other than in full compliance with all applicable laws, rules, and regulations. Lessor represents and warrants that as of the date hereof (a) it has not received notification of any kind from any regulatory agency stating that the Property is or may be targeted for a federal or state Hazardous Substances cleanup or may be contaminated with any Existing Hazardous Substances, as that term is defined above, or is currently in violation of any applicable zoning, building, safety or accessibility law or regulation and (b) Lessor has no knowledge of any release of any Existing Hazardous Substances or that the Property is currently

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in violation of any applicable zoning, building, safety or accessibility law or regulation. Lessor shall indemnify and hold Tenant harmless from and against any and all loss, damage, claims, penalties, liabilities, suits, costs, and expense (including, without limitation, cost of remedial actions or cleanup), suffered or incurred by Tenant arising out of or related to the breach of the foregoing representations and warranties. Tenant shall be entitled to offset the cost of removal or abatement of Existing Hazardous Substances or of curing violations of code or regulations relating to the condition or use of the Property which exist as of the Commencement Date from payments next falling due under the Lease.

3. Inspection and Inspection Waiver. Tenant shall have thirty (30) days ("Inspection Period") after execution and delivery of this Lease by all parties and delivery by Lessor to Tenant of the "Inspection Documents" described below within which to inspect the Property and review all Inspection Documents to determine whether the Property in its current status is suitable, in the exercise of the sole business judgment discretion of Tenant, for the purposes of Tenant. Immediately upon execution of this Lease, Lessor shall deliver to Tenant all books and records and documents relating to the operation of the Property or encumbrances on the Property (including but not limited to books and records of operations for the past three full calendar year plus the current year to date and all leases or maintenance agreements and all notes and encumbrances and restrictions on the Property which will remain in effect at the Commencement Date) and a preliminary commitment for ALTA extended coverage Owner's Leasehold Title Insurance on the Property from Yakima Title and Escrow ("Title Company") insuring Tenant in the amount of Six Million Two Hundred Fifty Thousand Dollars ($6,250,000), together with legible copies of all documents referred to therein ("Title Commitment") (all documents described in this sentence being referred to herein as "Inspection Documents"). This Lease shall terminate and all responsibilities of the parties to one another shall terminate unless, prior to the end of the Inspection Period, Tenant notifies Lessor that Tenant has determined to its satisfaction the Property can be used for these purposes to Tenant's satisfaction ("Inspection Waiver" or "Waiver Notice"). Lessor shall provide to Tenant the title insurance described in the Title Commitment by the Commencement Date described below.

4. Term. This Lease shall be for a term of fifteen (15) years, commencing the later of October 13, 1997 or seven (7) days after the Waiver Notice ("Commencement Date"). Tenant may renew the Lease for two five-year options on the same terms and conditions, provided written binding notice to renew shall be given at least one year in advance of any renewal commencement date, provided also that the increased rent escalator set forth in paragraph 5 shall apply to such extensions, and that the Lease is not in default at either the time the lease option is exercised or the extended term commences.

5. Rental. Tenant agrees to pay monthly rent ("Rental") of Thirty Five Thousand Dollars ($35,000) per month through September 30, 2003, prorated for any partial month. Commencing October 1, 2003, Rental shall increase to Fifty Two Thousand and Eighty Three Dollars ($52,083) per month, and rental shall increase annually thereafter on October 1 of each

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year by Five Thousand Two Hundred and Eight Dollars ($5,208) per month. Rental shall be paid by Tenant in advance on the first day of each and every month during the term hereof, except that the first payment shall be on the Commencement Date. The Rental is exclusive of any applicable sales or use tax on personal property included in this Lease, or any tax now or hereafter imposed in the nature of a sales or added tax in lieu of sales or use tax on such existing personal property, which shall be paid by Tenant in each instance. Tenant will be responsible for paying any use tax on personal property which it purchases in connection with the operation of the Property. If, hereafter, a leasehold excise tax (or sales tax on rental) is imposed on the Rental, Tenant shall pay the same on or before the applicable due dates.

Interest and principal payments of the debt service for the debt now encumbering the Property are not the responsibility of Tenant. During the course of this Lease, Lessor shall hold harmless and indemnify Tenant from any claim by any secured creditor of Lessor. Rental shall be paid to Lessor, at Lessor's address set forth in Section 23 hereof or at such other place as Lessor may designate in writing. Electronic transfers may be done as of the first day of any month if Lessor and Tenant so arrange. Tenant may, at its option, make direct payment on any encumbrance on the Property which exists as of the date of this Lease and, upon providing evidence of such direct payment, offset such direct payments against the Rental, which right Tenant agrees not to exercise so long as the holder of any encumbrance agrees to provide Tenant with the same notice of default as is required to be provided to Lessor and so long as Lessor does not fail to make any payment on any encumbrance when due. Lessor shall not further encumber the Property during this Lease.

6. Costs of Management, Operation and Maintenance. Tenant is to pay all Operating Expenses. The term "Operating Expenses" means all costs of management, operation, and maintenance of the Property as a Hotel utilizing the Cavanaugh's Hotel name or such other franchise as may be utilized by Tenant from time to time; including, without limitation, the following: employment taxes, unemployment insurance, wages, salaries, fringe benefits, and other direct and indirect costs of employees; janitorial, cleaning, landscaping, guard, security and other services; gas; electrical, water, waste disposal, and other utilities; heating, ventilation and air-conditioning; window washing; materials and supplies; painting, repairs, and other maintenance; parking lot resurfacing and restriping, as well as cleaning, sweeping, and ice and snow removal; maintenance, repair, replacement, and service of equipment, including without limitation the HVAC system, alarm systems, and other equipment; reserves; costs of independent contractors; management fees and expenses; insurance and insurance deductibles of any kind; real and personal property taxes, assessments; utility charges of any kind; the cost of any repair, renovation, alteration, and improvement required to be made under any governmental law, rule or regulation (excluding those in breach of any warranty of Lessor contained in this Lease); supplying directional signs, other markers, and car stops; and any other expense or charge which is a cost of management, operation, and maintenance of the Property.

The term Operating Expenses does not include any cost or fee for maintaining or

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terminating the Holiday Inn franchise/license, which shall be the sole responsibility and expense of Lessor. The Commencement Date has been established as seven (7) days from the Waiver Notice because the parties understand that Lessor will need to provide seven (7) days notice to terminate the Holiday Inn franchise/license.

7. Financial Statements. Financial statements have been provided to and reviewed by each party, of the other's operations to date. Each party certifies these financial statements are materially accurate as of the date they were written, and do not omit matters required to make a fair representation of the financial affairs and results they encompass. Each party certifies these financial statements are materially accurate and will remain substantially accurate to represent their operations through the Commencement Date. Each party is known by the other party to be relying thereon in entering into this agreement.

Tenant is leasing the property for its own uses and purposes, and is going to change the franchise name, method of operation, reservations systems, and some of the employees if it so chooses. Therefore the amount of profit or loss that may result from Tenant's decisions and operations, is totally based upon its own skills and is not related to any promise or projection from Lessor. In addition, Tenant shall be using its own skills, resources and personnel in carrying out its goals and objectives. Tenant warrants that it has all of the business expertise and experience needed to operate the facility for its own uses and purposes and is not relying on Lessor in any manner for such new operation. Lessor is not required to consult on the operation of the facility after the commencement of the Lease, and should Lessor do so, it is as an unpaid advisor and therefor Tenant is responsible for the consequences of any action or act it implements or standard of maintenance it follows.

8. Operation of Hotel.

(a) Tenant shall operate the Property as a hotel in a first-class manner at least equal to the quality of Lessor's prior operation of the Hotel.

(b) Included within the Property leased to Tenant under this Lease is all personal property, furnishings, fixtures, and inventory owned by Lessor used in connection with the operation of the Hotel except for that personal property which Lessor, as part of the Inspection Documents, lists for Tenant as being excluded from this Lease, which list must be approved during the Inspection Period. The agreements for use of any other personal property now used in connection with the operation of the Property but not owned by Lessor shall be provided to Tenant as part of the Inspection Documents. Tenant will only assume at the Commencement Date such agreements for use of maintenance of personal property or fixtures as it approves during the Inspection Period. Tenant agrees to maintain the furnishings, fixtures, and inventory in the operation of the Hotel at normal levels. The office off the lobby, Room 102, will be made available to lessor without charge of any kind through December 31, 1997 solely for the purpose of concluding prior hotel business.

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(c) Tenant agrees to make, throughout the term of this Lease, such replacements of furnishings, fixtures, and inventory as is reasonably necessary to operate the Hotel in compliance with this entire Section 8, or may upgrade furnishings, fixtures and equipment, and such replacements shall be the property of the Lessor. In the ordinary course of such replacements, Tenant may dispose of the replaced personal property. In the event of replacement of the personal property, which involves wholesale replacement of substantial amounts of the property, such as renovating rooms or replacing television sets, at least thirty
(30) days advance notice shall be given to Lessor along with a brief description of the plan of action to accomplish replacement, and the reasons therefor. All such replacement furnishings, fixtures and inventory shall become the property of Lessor upon termination of the Lease free and clear of any purchase money or other lien. Tenant shall be entitled to any proceeds of salvage or disposition of the obsolete or removed property.

Lessor shall be entitled to updated inventory lists as prepared by Tenant, and to have the right to conduct, at Lessor's own expense, audits of the inventory, fixtures, furnishings, televisions and the like. No such equipment of furnishings or fixtures shall have a brand name placed thereon of the hotel of such a character as to make the property not readily useable by any successor hotel operator or franchise. In the event Lessor is of the belief that the Property is not being adequately maintained or the inventory is inadequate, the parties shall consult and attempt to reach a plan rapidly to resolve the issue. Should this fail, and only as to the matters contained in this paragraph and paragraph 12, the parties agree to consult with each other to appoint an independent party with expertise to arbitrate the controversy, each party to pay one-half of the costs regardless of the outcome, and each to pay any of their own attorneys fees. Procedures shall be informal and meant to accomplish to goal of concluding the arbitration within thirty (30) days or as soon thereafter as reasonably practical. The arbitrator may, in carrying out this intent, establish reasonable rules and procedures to minimize fees and costs to each party and to bring the matter to a rapid and fair conclusion. Should either party fail to name or be unable to reach agreement on appointment of an arbitrator, the presiding judge of the Superior Court for Yakima County shall review the names and qualifications of three parties deemed independent by each of Lessor and Tenant, and choose one without hearing, based solely upon the description of such individual provided by the propounding party. If the decision of the arbitrator requires an upgrade to the hotel, maintenance, or personal property, the Lessor may declare this Lease in default if the order of the arbitrator is not implemented by Tenant fully within sixty (60) days of the decision, as to upgrade and replacement (or such time as such repairs or maintenance reasonably requires, if longer). An arbitrator's decision may not be upset unless it is clearly erroneous or arbitrary and capricious or the result of any unknown conflict of interest, or similar inappropriate behavior. These arbitration provisions apply exclusively and solely to those items in this paragraph and paragraph 12, and do not extend to any other right or remedy of Lessor or Tenant hereunder or under State law.

In the event Tenant shall add a class of property not already on the premises, such property shall remain Tenant's property and may be removed at the end of the term; but such

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property shall remain and title shall pass to Lessor if Tenant defaults on this Lease.

(d) As of the Commencement Date, Lessor shall terminate all employees of Lessor in the operation of the Hotel. Tenant may, but shall not be required to hire some or all such employees in connection with Tenant's operation of the Hotel. Lessor shall be responsible for all salaries, taxes, benefits, and vacation for such employees to the commencement date of the term of this Lease. Tenant shall be responsible for the same for all employees of Tenant in Tenant's operation of the Hotel beginning on the Commencement Date. Lessor shall compensate any employee with accrued but unused vacation as of the Commencement Date.

(e) All expenses and income from the Hotel shall be prorated between Lessor and Tenant as of 12:01AM on the Commencement Date, so that Lessor receives all income accrued through the day prior to and pays all expenses accrued through the day prior to the Commencement Date. Income from overnight room rentals and events for the night of the proration time, shall be shared equally between Lessor and Tenant (the night of October 12-13 if October 13 were the Commencement Date). After the Commencement Date, Lessor and Tenant shall make such payments to each other and to third parties as are necessary to implement the proration provisions of this subsection. Lessor shall retain all of its bank accounts, and the funds therein, as well as all cash on hand as of Midnight on the Commencement Date, and Tenant shall open its own bank accounts for the operation of the Hotel. From the Commencement Date forward, all accounts receivable from the operation of the Hotel accrued to the day prior to the Commencement Date, shall be collected by Lessor in its own name and at its own cost.

Lessor has many thousand future reservations in the Holiday Inn computer system and bookings for parties, events and meetings. Lessor shall provide Tenant, as an Inspection Document, a list of all such reservations or bookings and Tenant will, with regard only to those reservations so provided to Tenant during the Inspection Period, assume and honor each of such reservations at its then applicable rates and the income and expense generated thereby is solely the property and obligation of Tenant., or terminate the obligation, and Tenant shall defend and hold Lessor harmless from all loss, cost, expense or claims in that regard.

In the event of default and repossession of Property, all printouts, reservations, and future conventions, may be assumed by Lessor at its option, and all information relating to the same shall be immediately turned over to Lessor for its own use and benefit.

9. Quiet Enjoyment. Lessor covenants and agrees that so long as Tenant remains in full compliance with all of Tenant's obligations under this Lease, Tenant shall lawfully and quietly hold, occupy, and enjoy the Property during the term of this Lease, subject only to the other terms and provisions of this Lease and subject to all matters of record revealed by the Title Commitment, the terms of which shall not be modified without the approval of Tenant.

10. Acceptance of Property. By giving its Waiver Notice, Tenant acknowledges that

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the Property is in good and tenantable condition. The Property has been inspected by Tenant, and, except for the representations and warranties made by Lessor in this Lease, is turned over as of the Commencement Date AS IS, WHERE IS, AND WITH ALL FAULTS LATENT AND PATENT, WITH NO IMPLIED WARRANTIES, INCLUDING THE WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND RISKS OF MECHANICAL FAILURES; BREAKDOWNS AND WEAR AND TEAR OF PROPERTY AND EQUIPMENT ARE SOLELY AT TENANTS RISK.

11. Utilities and Other Services. By giving its Waiver Notice, Tenant has satisfied itself that all utilities and other services necessary for Tenant's purposes are available to the Property. Deposits (if any) on utilities as of the Commencement Date are the property of Lessor.

12. Repairs, and Maintenance by Tenant. Tenant shall be responsible for all maintenance of the Property during the term of this Lease. Tenant shall keep the Property in a neat, clean, sanitary condition, and shall keep the Property and all items used in connection with the operation of the Property in as good condition as was done by Lessor. Tenant's maintenance obligations shall include without limitation the structural and exterior components of the building, plumbing, electrical system, roof, swimming pool, etc. Wear and tear is to be offset by continuing improvements and additions to the property as reasonable and necessary to keep the Property in a first-class hotel operation, to include appearance items, such as painting, landscaping, carpeting and the like. The requirements of maintenance as set forth in this paragraph 12 are subject to the arbitration provisions of paragraph 8 (c), in the event Lessor believes the property is not being maintained according to these standards.

13. Taxes. Tenant shall pay directly, to the taxing or assessing authority, before the same become delinquent, all taxes and special assessments levied against the Property payable on or after the Commencement Date. Tenant shall pay, before the same become delinquent, all taxes assessed against Lessor's or Tenant's furniture, fixtures, equipment, and other property in the Property. Tenant shall provide evidence of payment upon request of Lessor. Taxes payable in the current year, assessments and insurance reserve accounts shall be prorated as of the Commencement Date, and credited or debited to the parties as appropriate. In the event the existing lenders of Lessor on the Property have the right, and exercise the right, to have tax or insurance amounts paid monthly into escrow, Tenant shall comply with the same. In the event Tenant desires to contest the amount of any property taxes, Tenant may do so, at its own expense, and for its own benefit, and Lessor shall cooperate with any reasonable attempt to reduce property taxes.

14. Lessor's Access to Property. Lessor, provided Lessor notifies Tenant at least 24 hours in advance, may inspect the Property at all reasonable times and enter the same for the purpose of determining whether the Tenant is complying with its obligations under this Lease.

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15. Insurance.

15.1 Liability Insurance. Tenant shall, at Tenant's sole expense, maintain comprehensive general liability and property damage insurance insuring against any and all claims for injury to or death of persons and loss of or damage to property occurring upon, in, or outside of the Property. Such insurance shall be of the type of coverage, and with the coverage limits, at least as required by holder of any first lien deed of trust and related loan documents encumbering the Property ("First Lien"), and, in any event, at least $10,000,000.

15.2 Tenant's Property Insurance. Tenant shall, at Tenant's sole expense, maintain on all of Tenant's personal property, fixtures and leasehold improvements on the Property, a policy of "all risk" special perils property damage insurance in the amount of their replacement value. Such insurance shall name Lessor as an additional insured, and all proceeds of such insurance shall be applied to the restoration of personal property, fixtures, and leasehold improvements; any proceeds of such insurance remaining after such restoration shall belong to Tenant.

15.3 Lessor's Property Insurance. Tenant shall, at Tenant's sole cost and expense maintain a policy of all risk special perils building and personal property insurance with full replacement value coverage of at least $6,250,000. Such insurance shall comply with all requirements of the holder of the First Lien. All proceeds of any such insurance shall be applied to the restoration of the Property.

15.4 Rental Insurance. Tenant shall acquire a policy of rental insurance for continuation from business interruption, with reasonable deductibles.

15.5 General Terms. All such insurance shall name Lessor and Tenant as co-insured as well as any lender of Lessor on the Commencement Date, all of whom shall receive copies of endorsements and policies. Policies shall provide for at least thirty (30) days notice to Lessor prior to cancellation. Such insurance may be part of blanket coverage and composed of primary and umbrella policies.

16. Assignment and Subletting. This Lease may be assigned or subleased to any entity of which Tenant is the manager or general partner or controlling owner, provided that Tenant remains responsible for all obligations under this Lease. Any other assignment or subletting requires consent of Lessor, which shall not be unreasonably withheld based upon the financial strength and management ability of the assignee or subtenant.

17. Damage or Destruction. If the property is damaged or destroyed by fire or any other cause except condemnation, Tenant shall restore the Property as nearly as practical to its condition immediately prior to such damage or destruction and all insurance proceeds shall be made available to Tenant for that purpose. Any restoration shall be promptly commenced and

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diligently prosecuted and rent shall not abate during such time. Lessor is not liable for any damages or abatement of rent for any reason whatsoever dealing with damage or destruction to the property.

18. Liens; Waste. Lessor and Tenant shall have no authority to allow any liens to be filed against the Property and shall not suffer or permit any lien to be filed against the Property, nor waste committed thereon. If any such lien is filed against the Property, the responsible party shall cause the same to be discharged of record (by bond or payment) within 60 days after the date of filing the same.

19. Indemnity by Parties. Except as provided in the last sentence of this Section 19, Tenant agrees that Lessor shall not be liable for any claims for death of or injury to persons or damages to or destruction of property sustained by Tenant or by any other person in or outside of the Property after the Commencement Date, including without limiting the generality of the foregoing, any claims caused by or arising from the condition or maintenance of any part of the Property. Tenant herby waives all claims therefor and agrees to hold harmless, defend, and indemnify Lessor against any such loss, damage, or liability or any expense (including attorneys' fees at trial or at appeal) incurred by Lessor in connection therewith. Tenant shall hold Lessor harmless from and against any and all damages arising out of any damage to any persons or property occurring in, on, or about the Property resulting from the negligent acts or omissions of Tenant or its agents, servants, employees, or authorized representative. Lessor shall hold harmless, defend, and indemnify Tenant from and against any and all damages arising out of any damage to any persons or property occurring in, on, or about the Property resulting from the negligent acts or omissions of Lessor or its agents, servants, employees, or authorized representatives or which are the subject of the specific representations and warranties of Lessor to Tenant contained in this Lease.

20. Default; Remedies; Late Charges. Time is of the essence hereof. In the event Tenant fails to make any payment, including the rent payment or the additional rental items of taxes, insurance or the like, and if such default or violation is not remedied within fifteen (15) days after notice in writing thereof is given by Lessor to Tenant, specifying the matter in default, then Lessor may have its default remedies, as further set forth below. If the default or violation claimed does not involve the payment of money, then Tenant must cure the default within thirty (30) days, or if the default is of such a nature that it cannot be cured within thirty (30) days, but it can be cured, then Tenant must commence the cure within the thirty (30) days and diligently continue the same until complete, or Lessor may likewise have its default remedies. In the event of such uncured default, or in the event of a default which cannot by its very nature be cured, then Lessor may at its option, immediately declare Tenant's rights under this Lease terminated, and reenter the Property using such force as may be necessary, and repossess itself thereof, as of its former estate, and remove all persons and property.

Tenant acknowledges that late payment by Tenant to Lessor of Rental will cause Lessor to

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incur costs not contemplated by this Lease, the exact amount of which would be extremely difficult and impractical to ascertain. Such costs include, but are not limited to, processing and accounting charges. Therefore, in the event Tenant fails to make any payment of Rental within ten (10) days of the date when such payment is due, Tenant shall pay to Lessor a late charge equal to five percent (5%) of the amount delinquent. Waiver of said 5% late charge with respect to any payment shall not be deemed to constitute a waiver with respect to any subsequent payment.

21. Trade Fixtures. Tenant may install on the Property such equipment as is customarily used in the type of business conducted by Tenant on the Property. Upon the expiration of this Lease, Tenant shall, at Tenant's expense, remove from the Property all such equipment and all other property of Tenant and repair any damage to the Property occasioned by the removal thereof. Any property left in the Property after the expiration or sooner termination of this Lease shall be deemed to have been abandoned by Tenant and become the property of Lessor to dispose of as Lessor deems expedient without accounting to Tenant therefor. If the Lease terminates other than at the end of its normal term or either extended term, all property of Tenant shall be deemed a portion of the Property and shall pass in title to Lessor at that time. No item shall be a trade fixture unless Tenant shall before its installation give notice to Lessor of its status as such and Lessor shall consent to such treatment, which consent shall not be unreasonably withheld.

22. Condemnation. If all of the Property is taken by any public authority under the power of eminent domain, this Lease shall terminate as of the date possession is taken by said public authority pursuant to such condemnation. If any part of the Property is so taken and, in the opinion of Tenant, it is not reasonably economically feasible to continue this Lease in effect, Tenant may terminate this Lease. In each such case, Lessor shall receive the condemnation award for the building, Tenant for the business.

If part of the Property is so taken, and Tenant does not elect to terminate this Lease, or until termination is effective, as the case may be, the rental shall be abated in the same proportion as the portion of the Property so taken bears to the whole of the Property, and Lessor out of condemnation proceeds received only shall make such repairs or alterations, if any, as are required to render the remainder of the Property tenantable.

All damages awarded for the taking or damaging of all or any part of the Property shall belong to and be the property of Lessor (except those portions described above belonging to Tenant who shall negotiate and receive those portion of the award), but nothing herein contained shall be construed as precluding Tenant from asserting any claim Tenant may have against such public authority for disruption or relocation of Tenant's business from the Property.

23. Notices. Al notices, demands, and requests to be given by either party to the other shall be in writing. All notices, demands, and requests by Lessor to Tenant shall be sent by

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United States registered or certified mail, postage prepaid, (or by private overnight courier) addressed to Tenant at W 201 North River Drive Suite 100, Spokane, WA 99201 Attn. Chief Operating Officer. All notices, demands, and requests by Tenant to the Lessor shall be sent by United States registered or certified mail, postage prepaid, (or by private overnight courier) addressed to Lessor at the street address of 360 Coombs Road, Moxee, WA 98936, with a copy to Donald H. Bond, Halverson & Applegate, P.S., P.O. Box 22730, Yakima, WA 98907-2715, or such other place as Lessor may from time to time designate by notice to Tenant. Notices, demands, and requests served upon Lessor or Tenant as provided in this section in the manner aforesaid shall be deemed sufficiently served or given for all purposes hereunder at the time such notice, demand, or request shall be so mailed or deposited.

24. Performance of Covenants. If Tenant shall fail to make any payment or perform any of Tenant's obligations under this Lease after notice required for a default, Lessor may, without further notice to or demand upon Tenant and without waiting or releasing Tenant from any obligations of Tenant under this Lease, make any such payment or perform any such obligation on Tenant's behalf in such manner and to such extent as Lessor deems desirable. All sums unpaid by Tenant, and all sums so paid by Lessor and all necessary costs and expenses in connection with the performance of any such obligation by Lessor, together with interest thereon at the rate of twelve percent (12%) per annum (or at the maximum rate permitted by law, whichever is less) from the date of the making of such expenditure by Lessor, shall be deemed Additional Rental hereunder and shall be payable to Lessor on demand.

25. Waiver of Subrogation. Lessor and Tenant shall each procure an appropriate clause in, or an endorsement on, any policy of insurance required by this Lease pursuant to which the insurance companies waive subrogation or consent to a waiver of right of recovery, and such party hereby agrees that it shall not make any claim against or seek to recover from the other for any loss or damage to its property, or the property of the other, resulting from fire or other hazards covered by such insurance, notwithstanding other provisions of this Lease; provided, however, that the release, discharge, exoneration, and covenant not to sue herein contained shall be limited by the terms and provisions of the waiver of subrogation clauses or endorsement consenting to a waiver of right of recovery, and shall be coextensive therewith.

26. Surrender of Property. Tenant, at the expiration or sooner termination of this Lease, shall quit and surrender the Property in good, neat, clean, and sanitary condition, in accordance with the standards of maintenance and replacement contained in this Lease.

27. Memorandum of Lease. This Lease may not be recorded. A Memorandum of this Lease will be recorded which only identifies the parties and the term.

28. Miscellaneous

28.1 Nonwaiver. No failure of Lessor to insist upon the strict performance of

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any provision of this Lease shall be construed as depriving Lessor of the right to insist on strict performance of such provision or any other provision in the future. No waiver by Lessor of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Lessor. No acceptance of rent or of any other payment by Lessor from Tenant after any default by Tenant shall constitute a waiver of any such default or any other default. Consent by Lessor in any one instance shall not dispense with necessity of consent by Lessor in any other instance.

28.2 Attorneys' Fees. If an action is commenced to enforce any of the provisions of this Lease, the prevailing party shall, in addition to its other remedies, be entitled to recover its reasonable attorneys' fees incurred prior to trial, at trial, and upon appeal.

28.3 Captions and Construction. The captions in this Lease are for the convenience of the reader and are not to be considered in the interpretation of its terms.

28.4 Partial Invalidity. If any term or provision of this Lease or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and be enforced as written to the fullest extent permitted by law.

28.5 Governing Law. This lease shall be governed by the laws of the State of Washington; Venue is Yakima County for any action.

28.6 Right to Certificates. Each party, within fifteen (15) days after notice from the other party, shall executed and deliver to the other party, in recordable from, a certificate stating that this Lease is unmodified and in full force and effect, or in full force and effect as modified and stating the modifications. The certificate shall also state the amount of Rental, the dates to which Rental has been paid in advance. Failure to deliver the certificate within such fifteen (15) day period shall be conclusive upon the party failing to deliver the certificate for the benefit of the party requesting the certificate and any successor to the party requesting the certificate, and this Lease is in full force an effect and has not been modified except as may be represented by the party requesting the certificate. The certificate shall be kept confidential and not recorded.

28.7 Entire Agreement. This document contains the entire and integrated agreement of the parties as to the lease of the Property and may not be modified except in writing signed and acknowledged by both parties.

28.8 Interpretation. This Lease has been submitted to the scrutiny of all parties hereto and their counsel if desired, and shall be given a fair and reasonable interpretation in

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accordance with the words hereof, without consideration or weight being given to its having been drafted by any party hereto or its counsel.

28.9 Number: Gender; Permissive Versus Mandatory Usage. Where the context permits, references to the singular shall include the plural and vice versa, and to the neuter gender shall include the feminine and masculine. Use of the words "may" shall denote an option or privilege and shall impose no obligation upon the party which may exercise such option or privilege; use of the word "shall" shall denote a duty or an obligation.

28.10 Time. is of the essence of this Lease.

28.11 Binding Effect; Counterpart Originals; Facsimile. This Agreement shall be binding upon the parties hereto and upon their respective executors, administrators, legal representatives, successors, and assigns. Each party to this Agreement may execute separate originals of this Agreement with the same effect as if both signed the same original. A facsimile transmission of the executed original shall be treated as an original signed document. The parties shall cooperate to assemble and deliver to one another duplicate signed originals as soon as practical following such facsimile transmission.

28.12 UCC Filing. The parties shall record a notice of lease upon the commencement hereof and Lessor may record a UCC-1 filing on fixtures, equipment and inventory owned by Lessor, which shall be kept renewed by both parties as Lessor requests during the term hereof.

29. Early Presence on Property. In order to effect a smooth transition of the operation of the Hotel, Lessor and Tenant agree that Tenant will be present upon the Property on the two days prior to the Commencement Date, but such presence shall not otherwise affect the dates specified in this lease. Lessor and Tenant shall jointly work on the transition of operations on those two days, and Lessor's employees shall work with Tenant on those dates, even though the employees will not be formally working as Tenant's employees.

EXECUTED as of the date first above written.

TENANT:	*LESSOR:*
GOODALE AND BARBIERI COMPANIES	*VA ALTA, INC.*
By /s/ Richard L. Barbieri	*By /s/ Randy Elliott*
Name: Richard L. Barbieri	*Name: Randy Elliott*
Title: Vice President	*Title: President*

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STATE OF WASHINGTON

)SS.
County of King

I certify that I know or have satisfactory evidence Richard L. Barbieri is the person who appeared before me, and said person acknowledged that (he/she) signed this instrument, on oath stated that (he/she) was authorized to execute the instrument and acknowledged it as the Vice President of Goodale and Barbieri Companies, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: September 18, 1997.

/s/ Lyn Tangen

Type/Print Name of Notary: Lyn Tangen
Notary Public in And For the State of Washington,
My appointment expires: November 23, 1998.

[SEAL APPEARS HERE]

STATE OF WASHINGTON

)SS.

County of Yakima

I certify that I know or have satisfactory evidence Randy Elliott is the person who appeared before me, and said person acknowledged that (he/she) signed this instrument, on oath stated that (he/she) was authorized to execute the instrument and acknowledged it as the President of Va-Alta, Inc., to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: September 22, 1997.

[SIGNATURE ILLIGIBLE]

Type/Print Name of Notary:

Notary Public in And For the State of Washington,
My appointment expires: _____

[SEAL APPEARS HERE]

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Order No. X-153138

Parcel A - legal description continued

Beginning at the Northwesterly corner of Lot 15, Block 190, Huson's Addition to North Yakima, now Yakima, as recorded in Volume "A" of Plats, page 11; thence Easterly along the Northerly boundary line of said Lot 15, 104 feet, more or less, to the Westerly wall of the existing building constructed on Lots 16 and 15 and a part of Lot 14, Block 190 of said Huson's Addition; thence Northerly and parallel with the West boundary of the said Block 190, of said Huson's Addition, 29 feet;
thence Easterly and parallel with the Northerly boundary line of the said Lot 15 40 feet;
thence Southerly and parallel with the West boundary of the said Block 190 of the said Huson's Addition, 130 feet, more or less, to a point which is 40.00 feet Northerly as measured at right angles or radially of the "Q" center line of Primary State Highway No. 3, East Yakima Avenue to Union Gap, as shown in Volume "A" of Highway Maps, page 54;
thence Westerly along a line which is 40.00 feet Northerly, as measured at right angles or radially of and parallel with said "Q" center line, to the Westerly boundary of Larrison's Addition to North Yakima, now Yakima, Washington, recorded in Volume "A" of Plats, page 70; thence Northerly along the said West boundary of said Larrison's Addition to the Southerly boundary of Lot 16, Block 190, of the said Huson's Addition; thence Westerly along the Southerly boundary of Lot 16, Block 190 of said Huson's Addition to the Westerly boundary of said Block 19O; thence Northerly along the Westerly boundary of Block 190 of the said Huson's Addition, 100 feet, more or less, to the point of beginning.
TOGETHER WITH that portion of vacated East Yakima Avenue accruing thereto as disclosed by Ordinance No. 1905, recorded March 3, 1976, under Auditor's No. 2412891.

Situate in Yakima County, Washington.

PARCEL B

That portion of the Northeast 1/4 of the Northeast 1/4 of Section 19, Township 13 North, Range 19, E.W.M., described as follows:
Beginning at a point on the North line of East Yakima Avenue which point is situated 50 feet East of the East line of Lot 1, Larrison's Addition to North Yakima, now Yakima, as recorded in Volume "A" of Plats, page 79; thence Northeasterly parallel with the North line of East Yakima Avenue, 144 feet;
thence North 9 degrees 36' West 129.2 feet; thence Southwesterly parallel with the North line of said Yakima Avenue 5.6 feet, more or less, to the Southwesterly corner of that certain tract of land conveyed to C.V. Showers and Florence Ferne Showers, husband and wife, by deed recorded in Volume 357 of Deeds under Auditor's No. 958251;

- continued -

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Order No. X-153138

EXHIBIT I

Parcel A

Lots 4 through 14, inclusive, Block 190, Huson's Addition to North Yakima, now Yakima, Washington, recorded in Volume "A" of Plats, page 11, together with vacated alley accruing thereto by reason of Ordinance No. 997 recorded February 8, 1968, under Auditor's No. 2155980, records of Yakima County, Washington; AND

That part of the Northeast 1/4 of the Northeast 1/4 of Section 19, Township 13 North, Range 19, E.W.M., described as follows:

Commencing at the Northeast corner of Lot 8, Block 190, Huson's Addition to North Yakima, now Yakima, Washington, recorded in Volume "A" of Plats, page 11, said point being 42.22 feet South 0 degrees 37'20" East of the concrete monument in the center line of East "A" Street;

thence South 0 degrees 37'20" East along the East line of said Huson's Addition 18.21 feet to the true point of beginning, said point being 208.77 feet South of the North line of said Northeast 1/4 of the Northeast 1/4; thence East, reference bearing, parallel with the North line of said Northeast 1/4 of the Northeast 1/4 208.77 feet;

thence South 0 degrees 37'20" East 40.27 feet; thence West 21.29 feet to the Northerly extension of the East line of Larrison's Addition to North Yakima, now Yakima, Washington, recorded in Volume "A" of Plats, page 79;

thence South 13 degrees 29'55" East along the East line of said Larrison's Addition 171.36 feet;

thence North 70 degrees 43'30" East 31.74 feet to a point which is 50 feet East of, as measured at right angles to the West line of Lot 2 of said Larrison's Addition;

thence South 7 degrees 02'55" East, parallel with the West line of said Lot 2, 130.00 feet to the North line of East Yakima Avenue; thence South 70 degrees 43'30" West along the North line of said East Yakima Avenue, 202.20 feet to a point which is 40.00 feet Northerly, as measured at right angles or radially, of the "Q" center line of Primary State Highway No. 3, East Yakima Avenue to Union Gap;

thence Southwesterly along a line which is 40.00 feet Northerly, as measured at right angles or radially, of and parallel with said "Q" center line, to the East line of said Huson's Addition;

thence North 0 degrees 37'20" West 406.61 feet to the true point of beginning, EXCEPT that portion of Lot 14, Block 190, Huson's Addition, recorded in Volume "A" of Plats, page 11, and Lot 1, Larrison's Addition to North Yakima, now Yakima, recorded in Volume "A" of Plats, page 79, together with vacated allay accruing thereto by reason of ordinance of vacation recorded under Auditor's No. 2155980, lying within the following described tract:

- continued -

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Order No. X-153138

Parcel B - legal description continued

thence North 148.2 feet, more or less, to a point 215 feet South of the North line of said subdivision;
thence West 173 feet;
thence South 39.4 feet;
thence West 21 feet;
thence South 13 degrees 35' East 168.6 feet; thence Northeasterly and parallel with the North line of said Yakima Avenue to a point which is 50 feet East of, as measured at right angles to the West line of Lot 2, said Larrison's Addition to North Yakima; thence South 7 degrees 02'55" East, parallel with the West line of said Lot 2. a distance of 130 feet, more or less, to the point of beginning, EXCEPTING THEREFROM that portion, if any, which may lie within that certain tract of land conveyed to Frank Struzik by deed recorded in Volume 435 of Deeds under Auditor's No. 1159656.
TOGETHER WITH that portion of vacated East Yakima Avenue accruing thereto as disclosed by Ordinance No. 1905 recorded March 3, 1976, under Auditor's No. 2412891.

Situate In Yakima County, Washington.

PARCEL C

The South 1/2 of the following described land, to wit:

(The North 208.725 Feet of the West 208,725 feet of the Northeast 1/4 of the Northeast 1/4 of Section 19, Township 13 North, Range 19, E.W.M., EXCEPT for roads along the North and West sides thereof.)

Situate in Yakima County, Washington.

END OF EXHIBIT I

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Exhibit 10.13(a)

HOTEL PURCHASE OPTION

THIS PURCHASE OPTION, dated for reference purposes September 15, 1997, is between VA ALTA, INC., a Washington corporation ("VAI") and GOODALE AND BARBIERI COMPANIES (which is in the process of changing its name to Cavanaugh's Hospitality Corporation) or assigns ("G&B").

1. Property. This Purchase Option upon the terms and conditions herein set forth, relates to the real property known as the Yakima Holiday Inn (the "Hotel") situated at 9 North Ninth Street, Yakima, WA 98901, legally described on Exhibit I attached hereto (the "Property"). The term "Property" includes land, building, improvements, and the personal property items described below. In the event Exhibit I is not attached to this document in correct or complete form at execution, the parties authorize the Title Company described below to prepare and attach the correct Exhibit I.

2. Use of Property: Environmental Matters. Hazardous and/or toxic waste or materials shall include any substance, waste, or material which is designated as a Hazardous Substance under the Comprehensive Environmental Response, Compensation and Liability Act (42 USC Section 9601 et seq.), the Model Toxics Control Act, revised Code of Washington Section 70.105D), or under any other applicable law. VAI warrants that only as of the date of the Waiver Notice described below, and not as to incidents thereafter, the Property does not contain any hazardous or toxic waste or materials or asbestos containing material as those terms are defined ("Existing Hazardous Substances") other than in full compliance with all applicable laws, rules, and regulations. VAI represents and warrants that as of the date hereof (a) it has not received notification of any kind from any regulatory agency stating that the Property is or may be targeted for a federal or state Hazardous Substances cleanup or may be contaminated with any Existing Hazardous Substances, as that term is defined above, or is in violation of any existing code or regulation and (b) VAI has no actual knowledge of any release of any Existing Hazardous Substances on the Property or that it is in violation of any existing code or regulation. VAI shall indemnify and hold G&B harmless form and against any and all loss, damage, claims, penalties, liabilities, suits, costs, and expense (including, without limitation, cost of remedial actions or cleanup), suffered or incurred by G&B arising out of or related to the breach of the foregoing representations and warranties. G&B shall be entitled to offset the cost of removal or abatement of Existing Hazardous Substances or of curing violations of code or regulations relating to the condition or use of the Property which exist as the date of the Waiver Notice from payments next falling due under the Option Payments or Option Price described below.

3. Inspection and Inspection Waiver. G&B shall have thirty (30) days ("Inspection Period") after execution and delivery of this document by all parties and delivery of the "Inspection Documents" described below within which to inspect the Property and review all Inspection Documents to determine whether the Property in its current status is suitable for the

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purposes of G&B. Immediately upon execution of this Option, VAI shall deliver to G&B all books and records and documents relating to the operation of the Property or encumbrances on the Property (including but not limited to books and records of operations for the past three full calendar year plus the current year to date and all leases or maintenance agreements and all notes and encumbrances and restrictions on the Property) and a preliminary commitment for ALTA owner's extended coverage Title Insurance on the Property from Yakima Title and Escrow Company ("Title Company") insuring G&B in the full amount of the Option Price described below, together with legible copies of all documents referred to therein ("Title Commitment") (all documents described in this sentence being referred to herein as "Inspection Documents"). This Option shall terminate and all responsibilities of the parties to one another shall terminate unless, prior to the end of the Inspection Period, G&B notifies VAI that G&B has determined to its satisfaction that the Property can be used for these purposes to G&B's satisfaction ("Inspection Waiver" or "Waiver Notice"). No payment or note shall be made to VAI until the Inspection Waiver.

4. Acceptance of Property. By giving its Waiver Notice, G&B acknowledges that the Property is in good and acceptable condition. The Property has been inspected by G&B, and, except for the representations and warranties specified in this Option, is turned over AS IS, WHERE IS, AND WITH ALL FAULTS LATENT AND PATENT, WITH NO IMPLIED WARRANTIES, INCLUDING THE WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND RISKS OF MECHANICAL FAILURES; BREAKDOWNS AND WEAR AND TEAR OF PROPERTY AND EQUIPMENT ARE SOLELY AT G&B'S RISK, effective
October 10, 1997.

5. Utilities and Other Services. By giving its Waiver Notice, G&B has satisfied itself that all utilities and other services necessary for G&B's purposes are available to the Property.

6. Assignment. This Option may be assigned by G&B or its successor in interest to any entity.

7. Damage or Destruction. If the property is damaged or destroyed by fire or any other cause prior to Option Closing, VAI has no obligation to rebuild; all such rights between the parties are described in that certain lease between the parties entered into as of this date ("Lease").

8. Condemnation. If all of the Property is taken by any public authority under the power of eminent domain, this Option shall terminate as of the date possession is taken by said public authority pursuant to such condemnation and all Option Payments made shall be refunded to G&B without interest. If any part of the Property is so taken and, in the opinion of G&B, it is not reasonably economically feasible to continue the Lease in effect, G&B may terminate this Lease and all Option Payments made shall be refunded to G&B without interest. In each such

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case, VAI shall receive the condemnation award for the building, G&B for the business.

In the event VAI shall receive an award as to the building, but the Lease continues between the parties, the amount awarded to VAI solely on account of the Property shall be a reduction of the Option Price set forth below, without interest. Except for this credit if the Option is exercised, G&B shall be entitled to no part or credit for the award to VAI. Nothing herein contained shall be construed as precluding G&B from asserting any claim G&B may have against such public authority for disruption or relocation of G&B's business from the Property.

9. Notices. All notices, demands, and requests to be given by either party to the other shall be in writing. All notices, demands, and requests by VAI to G&B shall be sent by United States registered or certified mail, postage prepaid, (or by private overnight courier) addressed to G&B at W.201 North River Drive Suite 100, Spokane, WA 99201 Attn. Chief Operating Officer. All notices, demands, and requests by G&B to the VAI shall be sent by United States registered or certified mail, postage prepaid, (or by private overnight courier) addressed to VAI at the street address of 360 Coombs Road, Moxee, WA 98936, with a copy to Donald H. Bond, Halverson & Applegate, P.S., P.O. Box 22730, Yakima, WA 98907-2715, or such other place as VAI may from time to time designate by notice to G&B. Notices, demands, and requests served upon VAI or G&B as provided in this section in the manner aforesaid shall be deemed sufficiently served or given for all purposes hereunder at the time such notice, demand, or request shall be so mailed or deposited.

10. Notice of Purchase Option. This Option shall not be recorded. A Memorandum of this Option will be recorded which only identifies the parties, the fact that the Option has been granted, and a legal description of the property.

11. G&B's Option to Purchase.

11.1 Grant of Option. In consideration for G&B entering into the Lease, and making the Option Payments defined below, VAI hereby grants to G&B the option (the "Option") to purchase the Property on the terms and conditions described in this Section.

11.2 Exercise of Option. So long as the Lease has not been earlier terminated, and all payments required under the Lease are then current, the Option may be exercised by G&B only on or at any time between March 1, 2003 and September 30, 2003, by G&B giving to VAI written notice of exercise of the Option (the "Option Notice"). Upon delivery of the Option Notice, VAI shall be bound to sell, and G&B shall be bound to buy, the Property, on the terms and conditions hereinafter set forth herein.

11.3 Purchase Price and Payment.

(a) Option Price. If G&B exercises the Option, then VAI shall sell,

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and G&B shall buy the Property on the Closing Date (defined below) at an all cash price of Six Million Two Hundred Fifty Thousand Dollars ($6,250,000) (the "Option Price"), against which G&B shall receive a credit for all Option Payments. Option payments are solely for the privilege of obtaining the Option and are not either a security deposit (there are no security deposits under the lease) nor are they a credit, off-set or liquidated damages for any purpose and the Option Payment is nonrefundable, and only creditable as set forth below in a purchase arrangement.

(b) Option Payments. G&B shall make Option Payments in the amount of One Million Dollars ($1,000,000) as follows: immediately upon giving the Waiver Notice, G&B shall deliver to VAI Five Hundred Thousand Dollars plus G&B's note for $500,000 payable interest only monthly in arrears for 60 months, and due and payable in full on the fifth anniversary of the date of the note ("Option Note") and shall receive a credit against the Option Price in the amount of the Option Payments of One Million Dollars ($1,000,000) (exclusive of interest on the Option Note). The Option Note shall be secured by an FDIC insured United States bank irrevocable Letter of Credit which provides for payment in full of the Option Note upon demand in the event of default in making a payment on the Option Note by G&B, and failure by G&B to cure such default within 30 days of notice of such default to G&B and the bank providing the Letter of Credit. G&B shall have the right to substitute for and obtain the release the Letter of Credit as security for the Option Note a deed of trust on that hotel property commonly known as Cavanaugh's at Yakima Center, provided such deed of trust is subordinate to no more than a first lien in the maximum principal balance of Two Million Four Hundred Thousand Dollars ($2,400,000), and the note evidencing such debt is not then in default which first lien G&B shall have the right, from time to time, and VAI shall cooperate by executing appropriate subordination documents, to refinance with a replacement first lien with the same or other lenders up to the same maximum amount. The Option Note and any deed of trust securing the Option Note shall be in normal commercial form, which shall be agreed upon between the parties during the Inspection Period. The letter of credit must be in appropriate form, and if the letter of credit expires prior to the payment in full of the note, then it must be renewed by G&B and the renewal given to VAI prior to the expiration, or VAI shall call upon the letter of credit immediately prior to its expiration without notice or demand to G&B. The interest rate on the promissory note shall be 8% per year simple interest, payable monthly.

11.4 Conveyance and Title.

(a) Manner of Conveyance. If G&B exercises the Option, title to the subject property shall be conveyed by VAI to G&B at Closing by statutory warranty deed (the "Deed"), and Bill of Sale, with no warranties express or implied except as to title, free and clear of all liens, encumbrances and defects ("Exceptions"), other than the Permitted Exceptions.

(b) Title Report: Objection to Exceptions. VAI shall provide G&B with the Title Commitment at the beginning of the Inspection Period. All exceptions which may be removed by monetary payment shall be removed by VAI at or before Closing. G&B's Waiver

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Notice is conditioned upon VAI's removal at closing of all non-monetary exceptions identified in the Title Commitment except those certain exceptions which are approved by G&B during the Inspection Period ("Permitted Exceptions") and any non-monetary exception which VAI notifies G&B will not be removed at or before Closing within 10 days following receipt of the Title Commitment; in which event G&B shall have the right to accept the exception identified in such notice as a Permitted Exception. The Permitted Exceptions shall include those exceptions which have been created by or arise through the occupancy and use of the Property by the G&B. In the event the Title Report shall reveal exceptions which are not deemed by G&B to be permitted, it is G&B's responsibility to communicate that to VAI during the Inspection Period. VAI may at that point terminate the transaction during the Inspection Period, if it does not wish to pay or perform to remove the exceptions from Title to which G&B objects, unless G&B accepts the exception as a Permitted Exception.

11.5 Closing: Possession. Closing defined as the consummation of the purchase of the Property by G&B from VAI in accordance with the terms and provisions of this Option, shall occur on a date ("Closing Date") specified By G&B in the Exercise Notice, which shall not be later than ninety (90) days from the date of the Option Notice. G&B shall be entitled to possession of the Property on the Closing Date. Closing and transfer of title shall not be deemed a termination of the Lease for purposes of any Lease provision which allows VAI to acquire title or possession to real or personal property upon termination of the Lease.

11.6 Escrow. Upon delivery, of the Option Notice by VAI, the parties will establish an escrow with the Title Company, or such other closing agent ("Closing Agent") as VAI and G&B may designate. The parties shall also execute satisfactory escrow instructions consistent with this Option as an accommodation to assist the Closing Agent in carrying out the escrow and in consummating this transaction. However, in the event that the parties fail to execute said escrow instructions, the following terms of this Option shall be deemed to be escrow instructions to the Closing Agent. The transaction shall be consummated as follows:

(a) Performance By VAI. VAI shall deposit into escrow with the Closing Agent, on or before the Closing Date, the following:

(i) The fully executed and acknowledged Deed for the Property, in a form sufficient for recording, conveying fee title to the Property, including all improvements thereon, to G&B, subject to no exceptions other than the Permitted Exceptions, and an executed Bill of Sale to the subject personal property.

(ii) A fully executed real estate excise tax affidavit.

(iii) An ALTA owner's extended policy of title insurance (the "Title Policy") issued by the Title Company in the full amount of the real property portion of the Purchase Price, insuring G&B's title to the property. Said Title Policy shall contain no exceptions other than the Permitted Exceptions. To the extent allowed by applicable law or regulations, the obligation of VAI to provide G&B with the Title Policy may be satisfied by amendment of the Owner's Leasehold title insurance described in the Lease to an Owner's policy.

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(iv) At the Closing, VAI will provide G&B with an affidavit that the seller is not a "foreign person," as defined and required in The Foreign Investment in Real Property Tax Act ("FIRPTA"), IRC Section 145 and all other documents reasonably required to consummate this transaction.

(v) All Closing Costs of VAI (including applicable excise tax) will be deducted from the Option Price paid at Closing.

(b) Performance By G&B. On or before the Closing Date, G&B shall deposit in escrow with the Closing Agent, the following:

(i) Sufficient funds to consummate the purchase in accordance with the Option, including the amount of the Option Price, less any Option Payments, plus any Closing Costs for which G&B is responsible.

(ii) Such other documents as are reasonably required to consummate this transaction.

(c) Closing expenses. At Closing, VAI shall pay the real estate excise tax imposed by law upon this Lease or Option and all other transfer taxes imposed by law; the premium for the Title Policy; and one-half of the escrow and recording fees and costs. At Closing, G&B shall pay one-half of the escrow fees and costs, and sales and use taxes as appropriate on the personal property being sold by VAI. Allocation of the purchase price between real and personal property shall be as mutually determined by the parties, or failing agreement, by arbitration pursuant to Section 8 of the lease, and shall be based only on the value at Closing of personal property owned by VAI as of the date of execution of this Option and still in existence as of the Closing.

(d) Closing Procedure. When all funds and documents have been deposited in escrow, the Closing Agent shall complete the transfer of the Property as follows:

(i) VAI shall receive the Purchase Price, less Closing Costs for which VAI is responsible.

(ii) After recording, G&B shall receive the Deed to the Property, Bill of Sale and the Title Policy.

(e) Prorations. Property taxes and water and similar items shall not be prorated between the parties as of the Closing Date, as G&B was responsible for the same under the lease.

(f) Remedies. Each party shall have all remedies at law or at equity, including specific performance and or damages, in the event the other fails to perform its obligations under the terms of this Option.

11.7 Termination of Lease. Upon the Closing, the Lease shall terminate with respect to the Property, and any prepaid rent shall be credited against the Option Price. Prior

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termination of the Lease by reason of unremedied default shall terminate this Option.

12. Miscellaneous

12.1 Nonwaiver. No failure of VAI to insist upon the strict performance of any provision of this Option shall be construed as depriving VAI of the right to insist on strict performance of such provision or any other provision in the future. No waiver by VAI of any provision of this Option shall be deemed to have been made unless expressed in writing and signed by VAI. No acceptance of rent or of any other payment to VAI from G&B after any default by G&B shall constitute a waiver of any such default or any other default. Consent by VAI in any one instance shall not dispense with necessity of consent by VAI in any other instance.

12.2 Attorneys' Fees. If an action is commenced to enforce any of the provisions of this Option, the prevailing party shall, in addition to its other remedies, be entitled to recover its reasonable attorneys' fees incurred prior to trial, at trial, and upon appeal.

12.3 Captions and Construction. The captions in this Option are for the convenience of the reader and are not to be considered in the interpretation of its terms.

12.4 Partial Invalidity. If any term or provision of this Option or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term and provision of this Option shall be valid and be enforced as written to the fullest extent permitted by law.

12.5 Governing law. This Option shall be governed by the laws of the State of Washington; Venue is Yakima County for any action.

12.6 Right to Certificates. Each party, within fifteen (15) days after notice from the other party, shall execute and deliver to the other party, in recordable form, a certificate stating that this Option is unmodified and in full force and effect, or in full force and effect as modified and stating the modifications. Failure to deliver the certificate within such fifteen (15) day period shall be conclusive upon the party failing to deliver the certificate for the benefit of the party requesting the certificate and any successor to the party requesting the certificate, and this Option is in full force an effect and has not been modified except as may be represented by the party requesting the certificate. The certificate shall be kept confidential and not recorded.

12.7 Entire Agreement. This document contains the entire and integrated agreement of the parties as to the Option and may not be modified except in writing signed and acknowledged by both parties.

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12.8 Interpretation. This Option has been submitted to the scrutiny of all parties hereto and their counsel if desired, and shall be given a fair and reasonable interpretation in accordance with the words hereof, without consideration or weight being given to its having been drafted by any party hereto or its counsel.

12.9 Number; Gender; Permissive Versus Mandatory Usage. Where the context permits, references to the singular shall include the plural and vice versa, and to the neuter gender shall include the feminine and masculine. Use of the word "may" shall denote an option or privilege and shall impose no obligation upon the party which may exercise such option or privilege; use of the word "shall" shall denote a duty or an obligation.

12.10 Time. Time is of the essence of this Option.

12.11 Binding Effect; Counterpart Originals; Facsimile. This Agreement shall be binding upon the parties hereto and upon their respective executors, administrators, legal representatives, successors, and assigns. Each party to this Agreement may execute separate originals of this Agreement with the same effect as if both signed the same original. A facsimile transmission of the executed original shall be treated as an original signed document. The parties shall cooperate to assemble and deliver to one another duplicate signed originals as soon as is practical following such facsimile transmission.

EXECUTED as of the date first above written.

G&B:	*VAI:*
GOODALE AND BARBIERI COMPANIES	*VA ALTA, INC.*
By /s/ Richard L. Barbieri	*By /s/ Randy Elliott*
Name: Richard L. Barbieri	*Name: Randy Elliott*
Title: Vice President	*Title: President*

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STATE OF WASHINGTON

)SS.

County of King

I certify that I know or have satisfactory evidence Richard L. Barbieri is the person who appeared before me, and said person acknowledged that (he/she) signed this instrument, on oath stated that (he/she) was authorized to execute the instrument and acknowledged it as the Vice President of Gooodale and Barbieri Companies, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: September 18, 1997.

/s/ Lyn Tangen

Type/Print Name of Notary: Lyn Tangen
Notary Public in And For the State of Washington,
My appointment expires: November 23, 1998.

[SEAL APPEARS HERE]

STATE OF WASHINGTON

)SS.

County of Yakima

I certify that I know or have satisfactory evidence Randy Elliott is the person who appeared before me, and said person acknowledged that (he/she) signed this instrument, on oath stated that (he/she) was authorized to execute the instrument and acknowledged it as the President of Va-Alta, Inc., to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: September 22, 1997.

[SIGNATURE ILLEGIBLE]

Type/Print Name of Notary:
Notary Public in And For the State of Washington, My appointment expires: November 7, 1997

[SEAL APPEARS HERE]

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EXHIBIT I

Parcel A

Lots 4 through 14, inclusive, Block 190, Huson's Addition to North Yakima, now Yakima, Washington, recorded in Volume "A" of Plats, page 11, together with vacated alley accruing thereto by reason of Ordinance No. 997 recorded February 8, 1968, under Auditor's No. 2155980, records of Yakima County, Washington; AND

That part of the Northeast 1/4 of the Northeast 1/4 of Section 19, Township 13 North, Range 19, E.W.M., described as follows:

Commencing at the Northeast corner of Lot 8, Block 190, Huson's Addition to North Yakima, now Yakima, Washington, recorded in Volume "A" of Plats, page 11, said point being 42.22 feet South 0 degree 37'20" East of the concrete monument in the center line of East "A" Street;

thence South 0 degree 37'20" East along the East line of said Huson's Addition 18.21 feet to the true point of beginning, said point being 208.77 feet South of the North line of said Northeast 1/4 of the Northeast 1/4; thence East, reference bearing, parallel with the North line of said Northeast 1/4 of the Northeast 1/4 208.77 feet;

thence South 0 degree 37'20" East 40,27 feet; thence West 21.29 feet to the Northerly extension of the East line of Larrison's Addition to North Yakima, now Yakima, Washington, recorded in Volume "A" of Plats, page 79;

thence South 13 degrees 29'55" East along the East line of said Larrison's Addition 171.36 feet;

thence North 70 degrees 43'30" East 31.74 feet to a point which is 50 feet East of, as measured at right angles to the West line of Lot 2 of said Larrison's Addition;

thence South 7 degrees 02'55" East, parallel with the West line said Lot 2, 130.00 feet to the North line of East Yakima Avenue; thence South 70 degrees 43'30" West along the North line of said East Yakima Avenue, 202.20 feet to a point which is 40.00 feet Northerly, as measured at right angles or radially, of the "Q" center line of Primary State Highway No. 3, East Yakima Avenue to Union Gap;

thence Southwesterly along a line which is 40.00 feet Northerly, as measured at right angles or radially, of and parallel with said "Q" center line, to the East line of said Huson's Addition;

thence North 0 degree 37'20" West 406.61 feet to the true point of beginning, EXCEPT that portion of Lot 14, Block 190, Huson's Addition, recorded in Volume "A" of Plats, page 11, and Lot 1, Larrison's Addition to North Yakima, now Yakima, recorded in Volume "A" of Plats, page 79, together with vacated alley accruing thereto by reason of ordinance of vacation recorded under Auditor's No. 2155980, lying within the following described tract;

- continued -

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Order No. x-153138

Parcel A - legal description continued

Beginning at the Northwesterly corner of Lot 15, Block 190, Huson's Addition to North Yakima, now Yakima, as recorded in Volume "A" of Plats, page 11; thence Easterly along the Northerly boundary line of said Lot 15, 104 feet, more or less, to the Westerly wall of the existing building constructed on Lots 16 and 15 and a part of Lot 14. Block 190 of said Huson's Addition; thence Northerly and parallel with the West boundary of the said Block 190, of said Huson's Addition, 29 feet;
thence Easterly and parallel with the Northerly boundary line of the said Lot 15 40 feet;
thence Southerly and parallel with the West boundary of the said Block 190 of the said Huson's Addition, 130 feet, more or less, to a point which is 40.00 feet Northerly as measured at right angles or radially of the "Q" center line of Primary State Highway No.3. East Yakima Avenue to Union Gap, as shown in Volume "A" of Higway Maps, page 54;
thence Westerly along a line which is 40.00 feet Northerly, as measured at right angles or radially of and parallel with said "Q" center line, to the Westerly boundary of Larrison's Addition to North Yakima, now Yakima, Washington, recorded in Volume "A" of Plats, page 70; thence Northerly along the said West boundary of said Larrison's Addition to the Southerly boundary of Lot 16, Block 190, of the said Huson's Addition; thence Westerly along the Southerly boundary of Lot 16, Block 190 of said Huson's Addition to the Westerly boundary of said Block 190; thence Northerly along the Westerly boundary of Block 190 of the said Huson's Addition, 100 feet, more or less, to the point of beginning.
TOGETHER WITH that portion of vacated East Yakima Avenue accruing thereto as disclosed by Ordinance No. 1905, recorded March 3, 1976, under Auditor's No. 2412891.

Situate in Yakima County, Washington.

PARCEL B

That portion of the Northeast 1/4 of the Northeast 1/4 of Section 19, Township 13 North, Range 19, E.W.M., described as follows:
Beginning at a point on the North line of East Yakima Avenue which point is situated 50 feet East of the East line of Lot 1, Larrison's Addition to North Yakima, now Yakima, as recorded in Volume "A" of Plats, page 79; thence Northeasterly parallel with the North line of East Yakima Avenue, 144 feet;
thence North 9 degrees 36' West 129.2 feet; thence Southwesterly parallel with the North line of said Yakima Avenue 5.6 feet, more or less, to the Southwesterly corner of that certain tract of land conveyed to C.V. Showers and Florence Ferne Showers, husband and wife, by deed recorded in Volume 357 of Deeds under Auditor's No. 958251;

-continued-

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Parcel B - legal description continued

thence North 148.2 feet, more or less, to a point 215 feet South of the North line of said subdivision;
thence West 173 feet;
thence South 39.4 feet;
thence West 21 feet;
thence South 13 degrees 35' East 168.6 feet; thence Northeasterly and parallel with the North line of said Yakima Avenue to a point which is 50 feet East of, as measured at right angles to the West line of Lot 2, said Larrision's Addition to North Yakima; thence South 7 degrees 02'55" East, parallel with the West line of said Lot 2, a distance of 130 feet, more or less, to the point of beginning, EXCEPTING THEREFROM that portion, if any, which may lie within that certain tract of land conveyed to Frank Strusik by deed recorded in Volume 435 of Deeds under Auditor's No. 1159656.
TOGETHER WITH that portion of vacated East Yakima Avenue accruing thereto as disclosed by Ordinance No. 1905 recorded March 3, 1976, under Auditor's No. 2412891.

Situate in Yakima County, Washington.

PARCEL C

The South 1/2 of the following described land, to wit:

(The North 208.725 feet of the West 208.725 feet of the Northeast 1/4 of the Northeast 1/4 of Section 15, Township 13 North, Range 19, E.W.M., EXCEPT for roads along the North and West sides thereof.)

Situate in Yakima County, Washington.

END OF EXHIBIT I

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Exhibit 10.14

HOTEL LEASE WITH PURCHASE OPTION

THIS LEASE, dated for reference purposes October 7, 1997, is between DUNSON RIDPATH HOTEL ASSOCIATES LIMITED PARTNERSHIP ("Lessor") and CAVANAUGHS HOSPITALITY CORPORATION (formerly known as Goodale and Barbieri Companies and referred to specifically herein as "CHC") ("Lessee").

1. Property. Lessor hereby leases to Lessee, upon the terms and conditions herein set forth, the real property known as The Ridpath Hotel (the "Hotel") situated at 515 W. Sprague, Spokane, Washington, legally described on Exhibit I attached hereto (the "Property"). The term "Property" includes land, building, improvements, and the personal property items described in Section 8 below. In the event Exhibit I is not attached in accurate or complete form to this document at execution, the parties authorize the Title Company described below to prepare and attach the correct Exhibit I.

2. Use of Property; Environmental Matters. The Property shall be used for operation as a hotel, guest services, restaurant, retail and banquet/meeting facility and for no other purpose (collectively "Hotel Use") without the prior consent of Lessor. Lessee shall not allow use of the Property in a manner which would increase insurance premiums, or for any illegal purpose. Lessee shall comply with all governmental rules, orders, regulations, or requirements relating to the use and occupancy of the Property. Lessee shall not allow the presence, use, storage or disposal of any hazardous or toxic waste or materials on the Property at any time other than in full compliance with all applicable laws, rules, and regulations. Hazardous and/or toxic waste or materials shall include any substance, waste, or material which is designated as a Hazardous Substance under the Comprehensive Environmental Response, Compensation and Liability Act (42 USC Section 9601 et seq.), the Model Toxics Control Act, revised Code of Washington Section 70.105D), or under any other applicable law. Lessee agrees to defend, indemnify and hold Lessor harmless from and against any liabilities, obligations, damages, costs, and expenses (including attorneys' fees incurred prior to trial, at trial and upon appeal) incurred as a result of any hazardous or toxic waste or material having been used, stored, or disposed of on the Property or violations of applicable laws, rules and regulations relating to the use of the Property after the Commencement Date and during the term of this Lease. This indemnity shall survive termination of this Lease. Lessor warrants that, to the best of the knowledge of Lessor, the Property does not contain any hazardous or toxic waste or materials or asbestos containing material as those terms are defined above as of the commencement of the term of this Lease ("Existing Hazardous Substances") other than in full compliance with all applicable laws, rules, and regulations, except as disclosed in that Phase I Environmental Site Assessment dated November 10, 1994 by Professional Service Industries, Inc. Lessor represents and warrants that as of the date hereof (a) it has not received notification of any kind from any regulatory agency stating that the Property is or may be targeted for a federal or state Hazardous Substances cleanup or may be contaminated with any Existing Hazardous Substances, as that term is defined above, or is currently in violation of any applicable zoning, building, safety or accessibility law or regulation and (b) *Lessor has no knowledge of any release of any Existing Hazardous Substances or that the Property is currently in violation of any applicable

* except as disclosed in the Phase I Environmental Site Assessment.

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zoning, building, safety or accessibility law or regulation. Lessor shall indemnify and hold Lessee harmless from and against any and all loss, damage, claims, penalties, liabilities, suits, costs, and expense (including without limitation, cost of remedial actions or cleanup), suffered or incurred by Lessee arising out of or related to the breach of the foregoing representations and warranties. In addition to any other remedy, in the event of a breach of the foregoing representations and warranties, Lessee shall be entitled to offset the cost of removal or abatement of Existing Hazardous Substances or of curing violations of code or regulations relating to the condition or use of the Property which exist as of the Commencement Date against the amount to be paid at Closing in the event the Option or Put described in Section 30 below is exercised.

3. Inspection and Inspection Waiver.

3.1 Lessee's Inspection and Waiver. Lessee shall have thirty (30) days ("Inspection Period") after execution and delivery of this Lease by all parties and delivery by Lessor to Lessee of the "Inspection Documents" described below within which to inspect the Property and review all Inspection Documents to determine whether the Property in its current status is suitable, in the exercise of the sole business judgment discretion of Lessee, for the purposes of Lessee. Immediately upon execution of this Lease, Lessor shall provide Lessee with continuing access to the Property to complete such inspections and reports as Lessee may elect, provided they shall be conducted without disruption of the operation of the Hotel and at Lessee's sole expense; and Lessor shall make available to Lessee in Spokane for copying or inspection all books and records and documents relating to the operation of the Property or encumbrances on the Property (including but not limited to all books and records of operations for the past three full calendar years plus the current year to date, union agreements or other contracts, leases or maintenance agreements, notes and encumbrances and restrictions on the Property, and all documents evidencing any item included within the term Property) and a preliminary commitment for ALTA extended coverage Owner's Leasehold Title Insurance on the Property from First American Title Company of Spokane ("Title Company") insuring Lessee in the amount of the Option Price described below, together with legible copies of all documents referred to therein ("Title Commitment") (all documents described in this sentence being referred to herein as "Inspection Documents"). Lessor shall pay for the cost of any survey required for extended coverage title insurance, if such survey does not already exist (if Title Company requires a survey for the required title insurance and another title insurer of comparable capability is willing to do so without a survey, Lessee agrees to substitute the other title insurer as the Title Company), and Lessee shall pay for the difference in premium between extended and standard coverage title insurance. Lessee shall only use the Inspection Documents for the purpose of evaluating the Property, as opposed to any competitive use, and shall restrict access to the Inspection Documents to those persons required to evaluate the Property. The manner of handling objections to title exceptions and existing agreements which will survive the Commencement Date is described in Section 30.4 (b). This Lease shall terminate and all responsibilities of the parties to one another shall terminate unless, prior to the end of the Inspection Period, Lessee notifies Lessor that Lessee has determined to its satisfaction the Property can be used for these purposes to Lessee's satisfaction ("Inspection Waiver" or "Waiver Notice"). Upon receipt of the Waiver Notice, Lessor shall provide to Lessee, at Lessor's cost except as specified above, the title insurance described in the Title Commitment by the Commencement Date described below.

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3.2 Lessor's Inspection and Waiver. Lessor shall have seven days from delivery to Lessor by Lessee of the current consolidated balance sheet of CHC, which CHC warrants is true and accurate, within which to evaluate and approve, in Lessor's sole discretion, the financial condition of CHC and to terminate this Lease in the event of disapproval. In the event of such termination, each party shall be released from all further obligations, except those of confidentiality, arising out of this Lease. In the event Lessor fails to notify Lessee of such termination within such seven day period, the right to terminate this Lease under this subsection 3.2 is waived.

3.3 Joint Contingency of Lessor and Lessee. Lessor and Lessee agree to cooperate with one another in obtaining from the holders of existing loans secured by the Property any approval of this Lease required by such loans and the extension of such loans, on terms acceptable to both Lessor and Lessee, through the end of the term of this Lease. In the event the parties and lenders fail to agree upon the foregoing prior to the end of the Inspection Period, this Lease shall terminate and each party shall be released from all further obligations, except those of confidentiality, arising out of this Lease. Appropriate subordination, attornment and none-disturbance agreements shall be included in any agreements with the lenders. After waiver of this contingency described in this subsection 3.3, neither party shall further encumber the Property or modify the terms of the loans. Lessor may assign this Lease as security for the loans approved under the terms of this Section 3.3.

4. Term. In the event of waiver of all contingencies described in Section 3 above, this Lease shall be for a term commencing seven (7) days after the Waiver Notice, or such other period as Lessor and Lessee may agree upon in order to accomplish an orderly transition of management of the Property ("Commencement Date") and terminating on November 1, 1999. Any holdover after the expiration of the term shall be deemed to be subject to all of the terms and conditions of this Lease.

5. Rental. Lessee agrees to pay monthly rent ("Rental") in the amount of the monthly principal and interest debt service (exclusive of any balloon payments of principal in excess of normal monthly payments) of notes secured by the Property as approved under the terms of Section 3.3 above, prorated for any partial month. The identity of the notes and payment amounts comprising the Rental shall be approved by Lessee in writing during the Inspection Period. Lessee will be responsible for paying any use tax on personal property which it purchases in connection with the operation of the Property or on Rental required to be allocated to personal property. The parties allocate none of the Rental to the existing personal property.

Lessee assumes no liability to the lenders for interest and principal payments of the debt service for the debt now encumbering the Property and, during the course of this Lease, Lessor shall hold harmless and indemnify Lessee from any claim by any secured creditor of Lessor. Rental shall be paid by direct payment to the holders of the notes secured by the Property, with proof of payment supplied to Lessor, at Lessor's address set forth in Section 23 hereof or at such other place as Lessor may designate in writing. Lessor shall not further encumber the Property during this Lease. Lessor may assign this Lease as security for the loans approved under the terms of Section 3.3 above.

6. Costs of Management, Operation and Maintenance. The Rental is net to Lessor throughout the term of this Lease. Lessor is not obligated to pay any costs of operation, maintenance

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or capital improvements. Lessee is to pay all Operating Expenses. The term "Operating Expenses" means all costs of management, operation, and maintenance of the Property as a Hotel utilizing the Cavanaughs Hotel name or such other franchise as may be utilized by Lessee from time to time, including without limitation, the following: employment taxes, unemployment insurance, wages, salaries, fringe benefits, and other direct and indirect costs of employees; janitorial, cleaning, landscaping, guard, security and other services; gas; electrical, water, waste disposal, and other utilities; heating, ventilation and air-conditioning; window washing; materials and supplies; painting, repairs, and other maintenance; parking lot resurfacing and restriping, as well as cleaning, sweeping, and ice and snow removal; maintenance, repair, replacement, and service of equipment, including without limitation the HVAC systems, alarm systems, and other equipment; reserves; costs of independent contractors; management fees and expenses; insurance and insurance deductibles of any kind; real and personal property taxes, assessments; utility charges of any kind; the cost of any repair, renovation, alteration, and improvement required to be made under any governmental law, rule or regulation (excluding those in breach of any warranty of Lessor contained in this Lease); supplying directional signs, other markers, and car stops; and any other expense or charge which is a cost of management, operation, and maintenance of the Property.

The term Operating Expenses does not include any cost or fee for maintaining or terminating the WestCoast franchise/license, which shall be the sole responsibility and expense of Lessor.

7. Operation of Hotel. Lessee shall operate, maintain and keep open at all times (except to the extent required by damage or condemnation) the Property as a hotel in a manner at least equal to the quality of Lessor's prior operation of the Hotel and in compliance with all loan documents secured by the Property as follows:

a) Lessee agrees to provide monthly operating statements to Lessor and to maintain the furnishings, fixtures, and inventory in the operation of the Hotel at normal levels.

b) Lessee agrees to make, throughout the term of this Lease, such replacements of furnishings, fixtures, and inventory as is reasonably necessary to operate the Hotel in compliance with this Lease, or may upgrade furnishings, fixtures and equipment, and such replacements shall be the property of the Lessee, provided such items shall be left on the Property and become the property of Lessor in the event of the termination of this Lease other than by purchase under Section 30 below. In the ordinary course of such replacements, Lessee may dispose of the replaced personal property. In the event of replacement of the personal property, which involves wholesale replacement of substantial amounts of the property, such as renovating rooms or replacing television sets, at least thirty (30) days advance notice shall be given to Lessor along with a brief description of the plan of action to accomplish replacement, and the reasons therefor. All such replacement furnishings, fixtures and inventory shall become the property of Lessor upon termination of the Lease free and clear of any purchase money or other lien. Lessee shall be entitled to any proceeds of salvage or disposition of the obsolete or removed property. Lessor shall be entitled to updated inventory lists as prepared by Lessee, and to have the right to conduct, at Lessor's own expense, audits of the inventory, fixtures, furnishings, televisions and the like. No such equipment of furnishings or fixtures shall have a brand name placed thereon of the hotel of such a character as to make the property not readily useable by any successor hotel operator or franchise.

c) In the event Lessor is of the belief that the Property is not being adequately maintained or the inventory is inadequate, the parties shall consult and attempt to reach a plan rapidly to resolve the

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issue. Should this fail, and only as to the matters contained in this paragraph and paragraph 12, the parties agree to consult with each other to appoint an independent party with expertise to arbitrate the controversy, each party to pay one-half of the costs regardless of the outcome, and each to pay any of their own attorneys fees. Procedures shall be informal and meant to accomplish the goal of concluding the arbitration within thirty (30) days or as soon thereafter as reasonably practical. The arbitrator may, in carrying out this intent, establish reasonable rules and procedures to minimize fees and costs to each party and to bring the matter to a rapid and fair conclusion. Should either party fail to name or be unable to reach agreement on appointment of an arbitrator, the presiding judge of the Superior Court for Spokane County shall review the names and qualifications of three parties deemed independent by each of Lessor and Lessee, and choose one without hearing, based solely upon the description of such individual provided by the propounding party. If the decision of the arbitrator requires an upgrade to the hotel, maintenance, or personal property, the Lessor may declare this Lease in default if the order of the arbitrator is not implemented by Lessee fully within sixty (60) days of the decision, as to upgrade and replacement (or such time as such repairs or maintenance reasonably requires, if longer). The decision of the arbitrator shall be final and enforceable by any court of competent jurisdiction under applicable statutes of the State of Washington. These arbitration provisions apply exclusively and solely to those items in this paragraph and paragraph 12, and do not extend to any other right or remedy of Lessor or Lessee hereunder or under State law.

d) Lessor shall provide a written notice to all employees of the Hotel to terminate all employees of the Hotel as of the Commencement Date. The notice shall be made in form acceptable to Lessee. Lessee may, but shall not be required to hire some or all such employees in connection with Lessee's operation of the Hotel. Lessor shall be responsible for all salaries, taxes, benefits, and vacation for such employees to the commencement date of the term of this Lease. Lessee shall be responsible for the same for all employees of Lessee in Lessee's operation of the Hotel beginning on the Commencement Date. Lessor shall compensate any employee with accrued but unused vacation as of the Commencement Date.

e) All expenses and income from the Hotel and all categories of Property shall be prorated between Lessor and Lessee as of 12:01AM on the Commencement Date, so that Lessor receives all income accrued through the day prior to and pays all expenses accrued through the day prior to the Commencement Date and Lessee receives and pays the corresponding items from the Commencement Date forward. Income from overnight room rentals and events for the night of the proration time, shall be shared equally between Lessor and Lessee (the night of October 31/November 1 if November 1 were the Commencement Date). After the Commencement Date, Lessor and Lessee shall make such payments to each other and to third parties as are necessary to implement the proration provisions of this subsection. Lessor shall retain all of its bank accounts, and the funds therein. Lessee shall pay Lessor for and retain for Lessee all cash on hand as of close of bars and restaurants on the Commencement Date, and Lessee shall open its own bank accounts for the operation of the Hotel. From the Commencement Date forward, all accounts received by Lessee from the operation of the Hotel attributable to parties from whom funds are then still owed for services prior to the Commencement Date, shall, to the extent collected, be allocated and paid between Lessor and Lessee in proportion to the amounts owed by that customer for the time periods before and after the Commencement Date as of the date of collection. Lessor shall not make direct collections from such customers without advising Lessee of the amounts so collected.

f) Lessor and Lessee shall execute and deliver on the Commencement Date such assumptions

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and notices as are required to transfer to Lessee all categories of Property during the term of the Lease.

g) Lessee has the right to perform alterations or remodeling of the Property provided that such alterations or remodeling are paid for by Lessee and do not decrease the value of the Property.

8. Property. Included within the Property leased to Lessee under this Lease and to be sold under the Option described below are all rights, personal property, furnishings, fixtures, and inventory owned or leased by Lessor located on the Property or used or capable of being used in connection with the operation of the Hotel including but not limited to the following:

a) Equipment Leases, which shall mean the leases covering items of the type listed as Service Equipment which are not owned by Lessor but are leased by Lessor, and which are located in or upon the Premises and are used or useable in connection therewith.

b) Hotel Contracts, which shall mean all service, maintenance, and other contracts respecting the maintenance or operation of the Hotel, which shall be transferred to Lessee to the extent transferable.

c) Improvements, which shall mean all buildings and improvements on the land described in Exhibit I.

d) Miscellaneous Assets, which shall mean all petty cash funds, all cash in house banks as of the Commencement Date, and all contract rights, leases, concessions, permits, receipts, trademarks, logos, copyrights, business records, and any items of intangible personal property relating to the ownership or operation of the Hotel except for the mark "WestCoast" Lessor shall provide to Lessee complete copies and, to the extent allowed by law, full benefit of any permits or other items which are not transferable.

e) Names, which shall mean the names other than WestCoast used in the operation of the Hotel including without limitation the names now used with the restaurants, banquet rooms and meeting rooms in the Improvements, and specifically do include the mark "Ridpath" for hotel and restaurant use. Lessor represents and warrants to the best of its knowledge it has the sole right to use and transfer the Names and that it has no knowledge of any protest to its right to use the Names or of any right of any other party to use of the Names; however Lessor does not represent that it has protected or registered the use of the Names under any federal or state procedure. Lessor will cooperate with Lessee to accomplish transfer of any use rights to the Names.

f) Operating Equipment, which shall mean all china, glassware, linen, silverware and uniforms, and supplies of every kind and nature of all operating departments, including, without limitation, cleaning supplies, guest supplies, printing stationery, bar supplies, fuel, laundry supplies and brochures and promotional material whether in use, or held in stock for future use, in connection with the operation of the Hotel, which are on hand on the date hereof, subject to such depletion and including such resupplies as shall occur and be made in the normal course of business.

g) Permits, which shall mean all licenses, franchises and permits used in the operation of the Hotel as heretofore operated, which shall be transferred to Lessee to the extent transferable, but excluding the WestCoast license/franchise.

h) Service Equipment, which shall mean all fixtures, furnishings, fittings, equipment, machinery, apparatus, vehicles, appliances and articles of personal property of every kind whatsoever used or usable in connection with any present or future operation of all or any part of the Hotel, including without limitation all elevators, escalators, boilers, furnaces, heating, ventilating and air-conditioning systems and equipment, office furniture and equipment (including safes, cash registers

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and accounting, duplicating and communication equipment)and specialized hotel equipment (including equipment usable in the operation of kitchens, laundries, meeting and banquet rooms, clubs, rental spaces, dry-cleaning facilities, bars and cocktail lounges), electrical equipment (including refrigerators, radios, television and lighting equipment), fire prevention and extinguishing apparatus, telephone system, pictures and ornaments, which are on hand as of the date hereof, subject to such depletion and including such replacements as shall occur or be made in the normal course of business; excluding, however, all items of personal property which are owned by Space Lessees or guests.

i) Space Leases, which shall mean all leases, subleases, licenses, franchises, concessions and other occupancy agreements, written or oral, whether or not of record, for use or occupancy of any portion of the Property, and "Space Lessees" shall mean the tenants or occupants thereunder. During the term of this Lease and thereafter in the event of purchase, Lessee assumes the obligations of Lessor under such Space Leases.

j) Reservations, for which Lessor shall provide Lessee, as an Inspection Document, a list of all such reservations or bookings and Lessee will, with regard only to those reservations so provided to Lessee during the Inspection Period, assume and honor each of such reservations at its then applicable rates and the income and expense generated thereby is solely the property and obligation of Lessee., or terminate the obligation, and Lessee shall defend and hold Lessor harmless from all loss, cost, expense or claims in that regard.

9. Quiet Enjoyment. Lessor covenants and agrees that so long as Lessee remains in full compliance with all of Lessee's obligations under this Lease, Lessee shall lawfully and quietly hold, occupy, and enjoy the Property during the term of this Lease, subject only to the other terms and provisions of this Lease and subject to all matters of record revealed by the Title Commitment, the terms of which shall not be modified without the approval of Lessee.

10. Acceptance of Property. By giving its Waiver Notice, Lessee acknowledges that the Property is in good and usuable condition. The Property has been inspected by Lessee, and, except for the representations and warranties made by Lessor in this Lease, is turned over as of the Commencement Date AS IS, WHERE IS, AND WITH ALL FAULTS LATENT AND PATENT, WITH NO IMPLIED WARRANTIES, INCLUDING THE WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND RISKS OF MECHANICAL FAILURES; BREAKDOWNS AND WEAR AND TEAR OF PROPERTY AND EQUIPMENT ARE SOLELY AT LESSEE'S RISK.

11. Utilities and Other Services. By giving its Waiver Notice, Lessee has satisfied itself that all utilities and other services necessary for Lessee's purposes are available to the Property. Deposits (if any) on utilities as of the Commencement Date are the property of Lessor.

12. Repairs, and Maintenance by Lessee. Lessee shall be responsible for all maintenance of the Property during the term of this Lease. Lessee shall keep the Property in a neat, clean, sanitary condition, and shall keep the Property and all items used in connection with the operation of the Property in as good condition as was done by Lessor. Lessee's maintenance obligations shall include without limitation the structural and exterior components of the building, plumbing, electrical system, roof, swimming pool, etc. Wear and tear is to be offset by continuing improvements and additions to

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the property as reasonable and necessary to keep the Property in a first-class hotel operation, to include appearance items, such as painting, landscaping, carpeting and the like. The requirements of maintenance as set forth in this paragraph 12 are subject to the arbitration provisions of section 7 c), in the event Lessor believes the property is not being maintained according to these standards.

13. Taxes. Lessee shall pay directly, to the taxing or assessing authority, before the same become delinquent, all taxes and special assessments levied against the Property payable on or after the Commencement Date. Lessee shall pay, before the same become delinquent, all taxes assessed against Lessor's or Lessee's furniture, fixtures, equipment, and other property in the Property. Lessee shall provide evidence of payment upon request of Lessor. Taxes payable in the current year, assessments and insurance reserve accounts shall be prorated as of the Commencement Date, and credited or debited to the parties as appropriate. In the event the existing lenders of Lessor on the Property have the right, and exercise the right, to have tax or insurance amounts paid monthly into escrow, Lessee shall comply with the same. In the event Lessee desires to contest the amount of any property taxes, Lessee may do so, at its own expense, and for its own benefit, and Lessor shall cooperate with any reasonable attempt to reduce property taxes, so long as those efforts do not result in a lien on the Property or expense to Lessor.

14. Lessor's Access to Property. Lessor, provided Lessor notifies Lessee at least 24 hours in advance, may inspect the Property at all reasonable times and enter the same for the purpose of determining whether the Lessee is complying with its obligations under this Lease.

15. Insurance.

15.1 Liability Insurance. Lessee shall, at Lessee's sole expense, maintain comprehensive general liability and property damage insurance insuring against any and all claims for injury to or death of persons and loss of or damage to property occurring upon, in, or outside of the Property. Such insurance shall be of the type of coverage, and with the coverage limits, at least as required by holder of any deed of trust and related loan documents encumbering the Property and shall name Lessor as an insured.

15.2 Lessee's Property Insurance. Lessee shall, at Lessee's sole expense, maintain on all of Lessee's personal property, fixtures and leasehold improvements on the Property, a policy of "all risk" special perils property damage insurance in the amount of their replacement value.

15.3 Lessor's Property Insurance. Lessee shall, at Lessee's sole cost and expense maintain a policy of all risk special perils building and personal property insurance with full replacement value coverage in the amount of the Option Price. Such insurance shall comply with all requirements of the holder of the encumbrances on the Property. All proceeds of any such insurance shall be applied to the restoration of the Property.

15.4 Rental Insurance. Lessee shall acquire a policy of rental insurance for continuation from business interruption, with reasonable deductibles.

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15.5 General Terms. Policies shall provide for at least thirty (30) days notice to Lessor prior to cancellation. Such insurance may be part of blanket coverage and composed of primary and umbrella policies.

16. Assignment and Subletting. This Lease and the Option described below may be assigned or subleased to any entity of which CHC is the manager or general Partner or controlling owner, provided that CHC remains responsible for all obligations under this Lease, including the assignment which the parties currently contemplate to Cavanaughs Hospitality, Ltd., a limited partnership of which CHC will be the General Partner. Any other assignment or subletting (except for normal retail leasing of portions of the Property, or any transfer in the control of CHC from members of the Barbieri family (other than by a public offering under the terms of which stock of CHC is listed on a public exchange) without the prior consent of Lessor shall entitle Lessor to exercise its right to Put the Property as described in Section 30.

17. Damage or Destruction. If the property is damaged or destroyed by fire or any other cause, all insurance proceeds shall be made available to Lessee for restoration of the property (except as to the rights of the holder of any encumbrance on the Property) and Lessee shall restore the Property as nearly as practical to its condition immediately prior to such damage or destruction so long as all insurance proceeds are made available to Lessee for that purpose. Any restoration shall be promptly commenced and diligently prosecuted and rent shall not abate during such time. Lessor is not liable for any damages or abatement of rent for any reason whatsoever dealing with damage or destruction to the property, but shall cooperate in applying all proceeds of insurance to the restoration of the Property.

18. Liens; Waste. Lessor and Lessee shall have no authority to allow any liens to be filed against the Property and shall not suffer or permit any lien to be filed against the Property, nor waste to be committed thereon. If any such lien is filed against the Property, the responsible party shall cause the same to be discharged of record (by bond or payment) within 60 days after the date of filing the same.

19. Indemnity by Parties. After the Commencement Date and during the term of this Lease, except as provided in the last sentence of this Section 19, Lessee agrees that Lessor shall not be liable for any claims for death of or injury to persons or damages to or destruction of property sustained by Lessee or by any other person in or outside of the Property or any other loss, damage or liability arising from the operation, management or maintenance of the Property, including without limiting the generality of the foregoing, any claims caused by or arising from the condition or maintenance of any part of the Property. Lessee hereby waives all claims therefor and agrees to hold harmless, defend, and indemnify Lessor against any such loss, damage, or liability or any expense (including attorneys' fees at trial or at appeal) incurred by Lessor in connection therewith. Lessee shall hold Lessor harmless from and against any and all damages arising out of any damage to any persons or property occurring in, on, or about the Property resulting from the negligent acts or omissions of Lessee or its agents, servants, employees, or authorized representative. Lessor shall hold harmless, defend, and indemnify Lessee from and against any and all damages arising out of any damage to any persons or property occurring in, on, or about the Property resulting from actions prior to the

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Commencement Date or the negligent acts or omissions of Lessor or its agents, servants, employees, or authorized representatives or which are the subject of the specific representations and warranties of Lessor to Lessee contained in this Lease.

20. Default; Remedies; Late Charges. Time is of the essence hereof. In the event Lessee fails to make any payment within the time period required by the notes secured by the property as of the date of this Lease and does not cure such default as provided in such loan documents, then Lessor may have its default remedies, as further set forth below. If the default or violation claimed does not involve the payment of money, then Lessee must cure the default within thirty (30) days, or if the default is of such a nature that it cannot be cured within thirty (30) days, but it can be cured, then Lessee must commence the cure within the thirty (30) days and diligently continue the same until complete, or Lessor may likewise have its default remedies. In the event of such uncured default, or in the event of a default which cannot by its very nature be cured, then Lessor may at its option, immediately declare Lessee's rights under this Lease terminated, and reenter the Property using such force as may be necessary, and repossess itself thereof, as of its former estate, and remove all persons and property; or, in the alternative and in the sole event that the default is material in nature and while such default continues, Lessor may elect to exercise its rights to Put the Property as described in Section 30 below; and in the event Lessor exercises its remedy to Put in the event of such a default, Lessor shall be entitled only to enforce its Put and to recover its actual expenditures on the Property or to service loans secured by the property. Lessor shall have landlord's lien to the full extent allowed by law.

Lessee acknowledges that late payment by Lessee to Lessor of Rental will result in late charges, which Lessee shall pay as Rental.

21. Trade Fixtures. Lessee may install on the Property such equipment as is customarily used in the type of business conducted by Lessee on the Property. Upon the expiration of this Lease, Lessee shall, at Lessee's expense, remove from the Property all such equipment and all other property of Lessee and repair any damage to the Property occasioned by the removal thereof. Any property left in the Property after the expiration or sooner termination of this Lease shall be deemed to have been abandoned by Lessee and become the property of Lessor to dispose of as Lessor deems expedient without accounting to Lessee therefor. If the Lease terminates other than at the end of its normal term, all property of Lessee shall be deemed a portion of the Property and shall pass in title to Lessor at that time. No item shall be a trade fixture unless Lessee shall before its installation give notice to Lessor of its status as such and Lessor shall consent to such treatment, which consent shall not be unreasonably withheld.

22. Condemnation. If all of the Property is taken by any public authority under the power of eminent domain, Lessee shall be deemed to have exercised its Option and this Lease shall terminate as of the date possession is taken by said public authority pursuant to such condemnation and all proceeds of such condemnation shall be applied first to payment to Lessor as if the Property had been purchased under the terms of the Option and the balance shall be the sole property of Lessee. If part of the Property is so taken, and Lessee does not at that time exercise its Option described in Section 30 below, the proceeds of condemnation shall be applied to restoration of the remaining portion of the

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Property and the Lease shall remain in effect. Lessee shall represent the ownership interest of the Property in any condemnation process.

23. Notices. All notices, demands, and requests to be given by either party to the other shall be in writing. All notices, demands, and requests by Lessor to Lessee shall be sent by United States registered or certified mail, postage prepaid, (or by private overnight courier) addressed to Lessee at 201 W. North River Drive Suite 100, Spokane, WA 99201 Attn. Chief Operating Officer. All notices, demands, and requests by Lessee to the Lessor shall be sent by United States registered or certified mail, postage prepaid, (or by private overnight courier) addressed to Lessor at the street address of 1531 Seventh Ave, Seattle WA 98101 attn. Gordon Sondland, with a copy to Gary Cole at Gary Cole, Ball, Janik Law Firm, 101 SW Main Street, Suite 1100, Portland, OR 97204, or such other place as Lessor may from time to time designate by notice to Lessee. Notices, demands, and requests served upon Lessor or Lessee as provided in this section in the manner aforesaid shall be deemed sufficiently served or given for all purposes hereunder at the time such notice, demand, or request shall be so mailed or deposited.

24. Performance of Covenants. If Lessee shall fail to make any payment or perform any of Lessee's obligations under this Lease after notice required for a default, Lessor may, without further notice to or demand upon Lessee and without waiting or releasing Lessee from any obligations of Lessee under this Lease, make any such payment or perform any such obligation on Lessee's behalf in such manner and to such extent as Lessor deems desirable. All sums unpaid by Lessee, and all sums so paid by Lessor and all necessary costs and expenses in connection with the performance of any such obligation by lessor, together with interest thereon at the rate of twelve percent (12%) per annum (or at the maximum rate permitted by law, whichever is less) from the date of the making of such expenditure by Lessor, shall be deemed additional rental hereunder and shall be payable to Lessor on demand.

25. Waiver of Subrogation. Lessor and Lessee shall make all reasonable efforts to each procure an appropriate clause in, or an endorsement on, any policy of insurance required by this Lease pursuant to which the insurance companies waive subrogation or consent to a waiver of right of recovery, and such party hereby agrees that it shall not make any claim against or seek to recover from the other for any loss or damage to its property, or the property of the other, resulting from fire or other hazards covered by such insurance, notwithstanding other provisions of this Lease; provided, however, that the release, discharge, exoneration, and covenant not to sue herein contained shall be limited by the terms and provisions of the waiver of subrogation clauses or endorsement consenting to a waiver of right of recovery, and shall be coextensive therewith.

26. Surrender of Property. Lessee, at the expiration or sooner termination of this Lease, shall quit and surrender the Property in good, neat, clean, and sanitary condition, in accordance with the standards of maintenance and replacement contained in this Lease.

27. Memorandum of Lease and Option. This Lease may not be recorded. A Memorandum of this Lease will be recorded which only identifies the parties and the term and the existence of the Option to sell and purchase.

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28. Miscellaneous

28.1 Remedies and Non-waiver. Each party shall have all remedies at law or at equity, including specific performance and or damages in the event the other fails to perform its obligations under the terms of this Lease or the Option/Put described below, with the exception that in the event Lessor exercises its remedy to Put in the event of a default under this Lease, it shall be entitled only to enforce its Put and to recover its actual expenditures on the Property or to service loans secured by the Property pursuant to Section 24 above. No failure of Lessor to insist upon the strict performance of any provision of this Lease shall be construed as depriving Lessor of the right to insist on strict performance of such provision or any other provision in the future. No waiver by Lessor of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Lessor. No acceptance of rent or of any other payment by Lessor from Lessee after any default by Lessee shall constitute a waiver of any such default or any other default. Consent by Lessor in any one instance shall not dispense with necessity of consent by Lessor in any other instance.

28.2 Attorneys' Fees. If an action is commenced to enforce any of the provisions of this Lease, the prevailing party shall, in addition to its other remedies, be entitled to recover its reasonable attorneys' fees incurred prior to trial, at trial, and upon appeal.

28.3 Captions and Construction. The captions in this Lease are for the convenience of the reader and are not to be considered in the interpretation of its terms.

28.4 Partial Invalidity. If any term or provision of this Lease or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and be enforced as written to the fullest extent permitted by law.

28.5 Governing Law. This Lease shall be governed by the laws of the State of Washington; Venue is Spokane County for any arbitration and King County for other actions.

28.6 Right to Certificates. Each party, within fifteen (15) days after notice from the other party, shall execute and deliver to the other party, in appropriate form, a certificate stating that this Lease is unmodified and in full force and effect, or in full force and effect as modified and stating the modifications. The certificate shall also state the amount of Rental, the dates to which Rental has been paid in advance and such other matters as may reasonably be requested. Failure to deliver the certificate within such fifteen
(15) day period shall be conclusive upon the party failing to deliver the certificate for the benefit of the party requesting the certificate and any successor to the party requesting the certificate, and this Lease is in full force an effect and has not been modified except as may be represented by the party requesting the certificate. The certificate shall be kept confidential and not recorded.

28.7 Entire Agreement. This document contains the entire and integrated

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agreement of the parties as to the lease of the Property and may not be modified except in writing signed and acknowledged by both parties.

28.8 Interpretation. This Lease has been submitted to the scrutiny of all parties hereto and their counsel if desired, and shall be given a fair and reasonable interpretation in accordance with the words hereof, without consideration or weight being given to its having been drafted by any party hereto or its counsel.

28.9 Number; Gender, Permissive Versus Mandatory Usage. Where the context permits, references to the singular shall include the plural and vice versa, and to the neuter gender shall include the feminine and masculine. Use of the word "may" shall denote an option or privilege and shall impose no obligation upon the party which may exercise such option or privilege; use of the word "shall" shall denote a duty or an obligation.

28.10 Time. Time is of the essence of this Lease.

28.11 Binding Effect; Counterpart Originals; Facsimile. This

Agreement shall be binding upon the parties hereto and upon their respective executors, administrators, legal representatives, successors, and assigns; subject, however, to the restrictions on transfer in Section 16 above. Each party to this Agreement may execute separate originals of this Agreement with the same effect as if both signed the same original. A facsimile transmission of the executed original shall be treated as an original signed document. The parties shall cooperate to assemble and deliver to one another duplicate signed originals as soon as is practical following such facsimile transmission.

28.12 Confidentiality. Each party shall hold all matter relating to this Lease strictly confidential until the Commencement Date, except as is required for each party to implement the terms of this Lease. Any public announcement or press release shall be made in timing and form agreed upon by the parties.

28.13 Commissions. Lessee represents and warrants that it has not engaged any real estate broker or contacted the Lessee as a result of solicitation by any real estate agent. Lessee shall not be responsible for payment of any commission to any entity or person arising out of this transaction.

29. Early Presence on Property. The parties agree to cooperate in all ways practical in the transition process. In order to effect a smooth transition of the operation of the Hotel, Lessee will be present upon the Property on the two days prior to the Commencement Date, but such presence shall not otherwise affect the dates specified in this Lease. Lessor and Lessee shall jointly work on the transition of operations on those two days, and lessor's employees shall work with Lessee on those dates, even though the employees will not be formally working as Lessee's employees.

30. Option and Put to Purchase

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30.1 Grant of Option. In consideration for Lessee entering into the Lease, Lessor hereby grants to Lessee the option to purchase the Property on the terms and conditions described in this Section (the "Option") and Lessee hereby grants to Lessor the right to require Lessee to purchase the Property on the terms and conditions described in this Section (the "Put").

30.2 Exercise of Option by Lessee and Put by Lessor. So long as the Lease has not been earlier terminated, and all payments required under the Lease are then current, the Option may be exercised by Lessee giving Lessor written notice of exercise of the Option (the "Option Notice"). Upon delivery of the Option Notice, Lessor shall be bound to sell, and Lessee shall be bound to buy, the Property, on the terms and conditions hereinafter set forth herein. In the event CHC consummates the initial public offering of the common stock of CHC, or in the event that CHC has not given the Option Notice by six months prior to the end of the Lease term, or in the event Lessee remains in default under circumstances which the terms of this Lease specify allow Lessor to exercise its Put, Lessor shall have the right, on or before 90 days prior to the expiration of the term of the Lease, to give Lessee written notice ("Put Notice") that Lessor is requiring Lessee to purchase the property at the Option Price. *

30.3 Purchase Price and Payment

a) Option Price. The Option Price shall be based upon the date of Closing (provided that a delay in Closing due to a failure of performance by Lessor shall not result in an increase in the Option Price) as follows: i) If Closing occurs on or prior to March 31, 1998, the Option Price is $11,500,000; ii) If Closing occurs after March 31, 1998 and prior to April 1, 1999, the Option Price is $12,000,000; iii) If Closing occurs after March 31, 1999, the Option Price is $12,500,000.

b) Payment. The Option Price shall be paid at Closing by payment in full (or assumption by Lessee and release of Lessor) of all encumbrances against the Property and the balance ("Equity") shall be paid to Lessor as follows:

i) In the event CHC is then a publicly traded company, which has conveyed its interest as Lessee/Option Holder under this Lease/Option to a limited partnership ("CH Ltd.") of which CHC is General Partner, then Lessor shall receive one-half (or more, at Lessor's option) of the Equity by transfer to Lessor of units of limited partnership interest in CH Ltd. ("Units") on condition that such Units shall have the right to be converted, at the option of Lessor at any time after six months from Closing, into the number of shares of common stock of CHC which are equal in value at Closing (based on the average price at which such common stock is traded in the 10 trading days prior to Closing or the initial public offering price if the initial public offering closes within 10 days of Closing) to the dollar credit against the Equity; and the balance of the Equity shall be paid in cash at Closing.

At such time as Lessor elects to convert the Units to stock as described in the preceding sentence, Lessor and CHC shall enter into a registration rights agreement which will:

a) grant to Lessor customary piggyback registration rights with respect to the CHC common stock received which will provide that if, on or after one year from the date of initial public offering of CHC common stock, CHC files a registration statement with respect to an

* If Lessor gives a Put Notice following a default by Lessee, subsequent cure of the default will not relieve Lessee of the obligation to purchase the Property pursuant to the Put.

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offering of its common stock for cash (other than on Form S-8, employee benefit plans, Form S-8, Rule 145 or rights offerings), Lessor may, at its expense, include its shares of CHC stock in such registration, subject to customary underwriter cut-back provisions; and

b) grant to Lessor that, in the event that CHC does not file an appropriate registration statement within one year of from the date of Closing of the Property, Lessor shall have a customary (and one-time only) demand registration right, subject to underwriter cut-back provisions.

Lessor further agrees that:

a) other holders of CHC common stock may be entitled to register their shares on the same registration statement;

b) if Lessor registers its CHC common stock pursuant to the registration rights agreement, it shall provide customary underwriting and indemnification agreements to CHC and to the underwriters of the stock offering;

c) CHC may, at its option and in lieu of registering Lessor's CHC common stock pursuant to such registration rights agreement, repurchase such shares at the then current market price;

d) Lessor is not entering into this Lease based on the expectation that CHC will consummate a public offering of its common stock and that there is no assurance that such a public offering will take place or, if it does, that the price per share of common stock offered thereby would be advantageous to Lessor; and

f) Lessor has no approval rights with regard to the structure of CH Ltd.

ii) In the event CHC is not then a publicly traded company, the Equity shall be paid;

a) If the Closing shall occur as a result of Lessor exercising its Put: fifty percent (50%) cash down at Closing and the balance amortized over 120 equal monthly payments at 9.5% interest per annum, due and payable in full two years following Closing, secured by the Property; or

b) If the Closing shall occur as a result of Lessee exercising its Option; all cash on Closing.

30.4 Conveyance and Title

(a) Manner of Conveyance. In the event the Option Notice or Put Notice is given, title to the subject property shall be conveyed by Lessor to Lessee at Closing by statutory warranty deed (the "Deed"), and Bill of Sale, with no warranties, express or implied except as to title and those specifically made by Lessor to Lessee contained in this Lease, free and clear of all liens, encumbrances and defects ("Exceptions"), other than the Permitted Exceptions.

(b) Title Report; Objection to Exceptions. Lessor shall provide Lessee with the Title Commitment and all agreements which will survive the Commencement Date at the beginning of the Inspection Period. Lessee's Waiver Notice is conditioned upon Lessor's removal at closing of all non-monetary exceptions identified in the Title Commitment except those certain exceptions which are approved by Lessee during the Inspection Period ("Permitted Exceptions"). Lessee shall notify Lessor within 10 days of receipt of the Title Commitment of any non-monetary

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exceptions or agreements which it disapproves. Lessor shall have 10 days following such notice of disapproval within which to notify Lessee which of the disapproved items it will remove and, in the event all such disapproved items will not be eliminated, Lessee shall have the right, prior to the end of the Inspection Period, to either accept the items which will not be removed as a Permitted Exception or acceptable agreement, or to terminate the Lease. The Permitted Exceptions shall include those exceptions which have been created by or arise through the occupancy and use of the Property by the Lessee. Lessee will only assume at the Commencement Date such agreements as it approves during the Inspection Period.

30.5 Closing Possession. Closing, defined as the consummation of the purchase of the Property by Lessee from Lessor in accordance with the terms and provisions of this Option, shall occur on a date ("Closing Date") specified by Lessee in the Option Notice or Lessor in the Put Notice, which shall be ninety
(90) days from the date of the Option Notice or Put Notice unless otherwise agreed upon by the parties. Lessee shall be entitled to possession of the Property on the Closing Date free of the terms of the Lease.

30.6 Escrow. Upon delivery of the Option Notice by Lessor, the parties will establish an escrow with the Title Company, or such other closing agent ("Closing Agent") as Lessor and Lessee may designate. The parties shall also execute satisfactory escrow instructions consistent with this Option as an accommodation to assist the Closing Agent in carrying out the escrow and in consummating this transaction. However, in the event that the parties fail to execute said escrow instructions, the following terms of this Option shall be deemed to be escrow instructions to the Closing Agent. The transaction shall be consummated as follows:

(a) Performance By Lessor. Lessor shall deposit into escrow with the Closing Agent, on or before the Closing Date, the following:

(i) The fully executed and acknowledged Deed for the Property, in a form sufficient for recording, conveying fee title to the Property, including all improvements thereon, to Lessee, subject to no exceptions other than the Permitted Exceptions, and an executed Bill of Sale to the subject personal property.

(ii) A fully executed real estate excise tax affidavit.

(iii) An ALTA owner's extended policy of title insurance (the "Title Policy") issued by the Title Company in the full amount of the real property portion of the Purchase Price, insuring Lessee's title to the property. Said Title Policy shall contain no exceptions other than the Permitted Exceptions. Lessee shall pay the difference between the premium for extended coverage and that for standard coverage.

(iv) At the Closing, Lessor will provide Lessee with an affidavit that the Lessor is not a "foreign person," as defined and required in The Foreign Investment in Real Property Tax Act ("FIRPTA"), IRC Section 145 and all other documents reasonably required to consummate this transaction.

(v) All Closing Costs for which Lessor shall be responsible will be deducted from the Option Price paid at Closing.

(vi) Lessor shall execute acknowledge and deliver to Lessee a bill of sale and title registration transfer documents sufficient to transfer clear title and interest in and to the

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Service Equipment, any Hotel vehicles, consumables and Operating Equipment subject to and in accordance with the provisions of this Agreement.

(vii) Lessor shall also execute, acknowledge and deliver to Lessee an assignment of all security deposits then held by Lessor pursuant to the terms of Space Leases.

(viii) Lessor shall, to the extent transferable, execute, acknowledge and deliver to Lessee an assignment of all of Lessor's right, title and interest under the Hotel Contracts, Transferable Permits, Names and the Miscellaneous Assets to be sold pursuant to this Agreement and shall deliver Lessor's original counterparts of all documents which are in writing together with such correspondence and other records, if any, pertaining thereto which Lessor has. The Hotel WestCoast Franchise Agreement and management contract shall be terminated by Lessor as of the Closing Date.

(ix) As to any nontransferable Permits, Lessor will, at Lessee's cost and expense, execute and deliver to Lessee any documents reasonably required to be signed by Lessor to effect the reissuance thereof in the name of Lessee.

(x) To the extent transferable and not previously provided to Lessee during the Inspection Period, Lessor shall use its best efforts to obtain and deliver to Lessee certificates from the lessees under any Space Leases and from parties to each of the material Hotel Contracts and stating that said leases and/or contracts are in full force and effect in accordance with their terms, that to the best of their knowledge there are no defaults thereunder, and that, to the extent that the consent of such party is required for the assignment thereof, such consent has been given.

(xi) To the extent transferable and not previously provided to Lessee during the Inspection Period, Lessor shall deliver to Lessee all records pertaining to the then registration of guests, advance bookings of banquets and similar functions, advance room reservations, promotion records, due bills, records of the purchasing and engineering departments of the Hotel and all other records, instruments, documents and deposits for Hotel operation.

(xii) Lessor shall deliver to Lessee all other instruments and documents to which Purchase may be entitled at the Closing under any of the other provisions of this Agreement.

(b) Performance By Lessee. On or before the Closing Date, Lessee shall deposit in escrow with the Closing Agent, the following:

(i) Sufficient funds to consummate the purchase in accordance with this Option, including the amount of the Option Price less any credit for units of limited partnership to be transferred as described above, plus any Closing Costs for which Lessee is responsible.

(ii) Such other documents as are reasonably required to consummate this transaction.

(c) Closing expenses. At Closing Lessor shall pay the real estate excise tax imposed by law upon this Lease or Option and all other transfer taxes imposed by law; the premium for the Title Policy; and one-half of the escrow and recording fees and costs. At Closing, Lessee shall pay one-half of the escrow fees and costs, and sales and use taxes as appropriate on the personal property being sold by Lessor. Allocation of the purchase price between real and personal property shall be as mutually determined by the parties, or failing agreement, by arbitration pursuant to Section 8 of the lease, and shall be based only on the value at Closing of personal property owned by Lessor as of the date of execution of this Option and still in existence as of the Closing.

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(d) Closing Procedure. When all funds and documents have been deposited in escrow, the Closing Agent shall complete the transfer of the Property as follow:

(i) Lessor shall receive the Purchase Price, less Closing Costs for which Lessor is responsible.

(ii) After recording, Lessee shall receive the Deed to the Property, Bill of Sale, all other documents described under Lessor's obligations above, and the Title Policy.

(e) Prorations. Property taxes and water and similar items shall not be prorated between the parties as of the Closing Date, as Lessee was responsible for the same under the lease.

30.7 Termination of Lease. Prior written termination of the Lease by reason of unremedied default shall terminate this Option and Put.

EXECUTED as of the date first above written.

Cavanaughs Hospitality Corporation	*Dunson Ridpath Hotel Associates by Spokane Hotel, Inc., General Partners*
By: /s/ Donald K. Barbieri	*by /s/ Gordon Sondland*
---	---
Donald K. Barbieri	*Gordon Sondland*
its president	*its President*

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STATE OF WASHINGTON

)SS.

County of Spokane

I certify that I know or have satisfactory evidence Donald K. Barbieri is the person who appeared before me, and said person acknowledged that (he/she) signed this instrument, on oath stated that (he/she) was authorized to execute the instrument and acknowledged it as the President of Cavanaughs Hospitality Corporation, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: October 8, 1997.

/s/ Patricia R. Stapleton

Type/Print Name of Notary:
_____
Notary Public in And For the State of Washington
residing at Spokane
My appointment expires: January 6, 1998

[SEAL APPEARS HERE]

STATE OF OREGON

)SS.

County of Multnomah

I certify that I know or have satisfactory evidence Gordon Sondland is the person who appeared before me, and said person acknowledged that (he/she) signed this instrument, on oath stated that (he/she) was authorized to execute the instrument and acknowledged it as the President of Spokane Hotel Inc. in its capacity as General Partner of Dunson Ridpath Hotel Associates Limited Partnership, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: October 8, 1997.

Type/Print Name of Notary: */s/ Penelope Gresham*

Notary Public in And For the State of Oregon
residing at_____
My appointment expires: May 18, 1998

[SEAL APPEARS HERE]

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FIRST ADDENDUM TO
HOTEL LEASE WITH PURCHASE OPTION

THIS FIRST ADDENDUM, dated for reference purposes November 25, 1997, is to that Hotel Lease with purchase Option dated October 7, 1997 ("Lease") between DUNSON RIDPATH HOTEL ASSOCIATES LIMITED PARTNERSHIP ("Lessor") and CAVANAUGHS HOSPITALITY CORPORATION. Except as otherwise specified in this Addendum, all terms shall have the same meaning as defined in the Lease. For good and valuable consideration, receipt of which is acknowledged, the Lease is amended as follows:

A) Property: The Property is identified as being that described in Exhibit 1, which is attached to and incorporated in this Addendum by this reference.

B) Lessee: Cavanaughs Hospitality Corporation hereby assigns all rights and obligations of Lessee under the Lease to Cavanaughs Hospitality Limited Partnership ("Lessee"), the sole general partner of which is Cavanaughs Hospitality Corporation from any of its obligations under the Lease.

C) Waiver of Contingencies: Subject to the terms of this Addendum, Lessor and Lessee waive the contingencies described in Section 3.1, 3.2 and 3.3 of the Lease. Lessee accepts the Property in its condition as of the date of this Addendum. Lessee further agrees that Lessee will not assert any offset to which it may be entitled against Lessor for any defect known to Lessee as of the date of this Addendum.

D) Condition of Title: With the exclusion of the items specified in the next sentence, Lessee accepts title subject to the exceptions set forth in First American Title of Spokane Commitment Order No. 124974-CB. Lessor shall provide the Title Company with all affidavits required to delete exception numbers 14, 17, 21, 23, 24, 25, and 26 which refer to leases and terms contained in leases which Lessor warrants are no longer in effect. Lessors inability to cause the deletion of the exceptions described in the preceding sentence, other than exception number 14, shall not affect Lessee's and Lessor's obligation to consummate the transactions described in the Lease. Removal of exception number 14 by the Commencement Date is a precondition to any further obligation of Lease under the Lease unless waived by Lessee in writing.

E) Term: The term of the Lease shall be from January 1, 1998 ("Commencement Date") to November 1, 1999.

F) Rental and Encumbrances: The identity and payment terms of the notes comprising the Rental as follows; a) Washington Mutual Bank Loan having principal balance of $4,820,705.24 with interest paid in November 1, 1997 and payment terms modified as provided in Washington Mutual letter dated October 30, 1997; b) U.S. Bank Loan having principal

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balance of $2,147,438 with interest paid to November 1, 1997 and payment terms modified as described in U.S. Bank letter dated November 18, 1997; and c) Aspen Path Loan currently encumbering the Property having an unpaid principal balance of $125,000 with interest paid to November 1, 1997 shall be modified prior to the Commencement Date to eliminate all payments through the term of the Lease by providing that interest that shall accrue until payment in full on November 1, 1999, unless earlier prepaid. The payments of the monthly principal and interest debt service (exclusive of any balloon payments of principal in excess of normal monthly payments) on the notes described in a) and b) of the preceeding sentence comprise the Rental. As of the date of Closing, the sum of the following shall constitute the encumbrances to be paid or assumed by Lessee as described in
Section 30.3 b) in part payment of the Option Price: x) the then unpaid balance of principal and interest on the notes described in a), b) and c) of the first sentence of this Section F; plus y) the lesser of the then payoff figure which the contract holder would accept in total satisfaction of the contract or the then total unpaid payments and buyout amounts of the following contracts described in Exhibit II to this Addendum; I) Miller Elevator Service Company dated 11/3/95 (only the "Special Provision" described in Exhibit II.I); 2) GE Capital Lease for Copier start dated 2/28/95; 3) T&W Lease for Voice Mail start dated 10/2 4) T&W Lease for Compactor start dated 6/25/96; 5) T&W Lease for CLS System start dated 4/20/95; 6) T&W Lease for Saflok System start dated 8/20/96;
7) Associates Leasing Lease for Radios start dated 10/1/96; 8) Associated Leasing Lease for Paging System start dated 5/1/96 9) Fleet Lease for 1997 Ford Van start dated 10/1/96; 10) Fleet Lease for 1995 Dodge Van start dated 11/1/94. Lessor agrees to pay any loan fee imposed by U.S. Bank or Aspen Path for the modification of the terms of payment of the U.S. Bank note or Aspen Path note. Lessee agrees to pay the $6,500 loan fee imposed by Washington Mutual Bank for the modification of the terms of payment of the Washington Mutual note. The parties will equally divide any other reasonable costs for which U.S. Bank or Washington Mutual Bank require reimbursement for the above described modifications.

G) Contract Obligations: With the exceptions stated in the next sentence. Lessee accepts all contracts which have been provided to Lessee in writing by Lessor. Lessee does not accept, and Lessor shall hold Lessee harmless from all obligations, including attorney fees or costs, arising from a) Any contracts or collective bargaining agreements with or other obligations (including any obligation to provide notice of or bargain with regard to termination or sale imposed by contract or law) to employees or unions; b) Any contracts or licenses pertaining to West Coast Hotels; c) Any listing contract for the sale of lease of all or any portion of the Property. Lessee agrees, however, to bargain in good faith with the Hotel Employees and Restaurant Employees and with the Operating Engineers with regard to the terms of employment of employees of Lessee at the Hotel in bargaining units represented by those unions.

H) Cooperation in Transition: Lessor and Lessee agree, in addition to the other terms of the Lease to cooperate in the transition period between the date of this Addendum and the Commencement Date by; a) Lessor providing Lessee access, to the extent possible without disrupting Hotel operations, to Lessor's employees for the purpose of conducting employment

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interviews; b) Lessor allowing Lessee, at Lessee's sole expense, to maintain an on site representative(s) to begin sales efforts for post-Commencement Date operations without disrupting Hotel operations; c) Lessor and Lessee, to the extent a liquor license for the Hotel has not been issued in the name of Lessee as of the Commencement Date, entering into a liquor operations management agreement under the terms of which Lessee will operate under Lessor's existing liquor license with the consent of the public authorities, with Lessee holding Lessor harmless from all such operations and paying to Lessor the minimum amount which the public authorities will allow for such operations; and d) Until the Commencement Date, Lessor shall at all times maintain and operate the Hotel in accordance with past practice.

Options Price: Section 30.3a) of the Lease is modified to read as follows:
"The Option Price shall be based upon the date of Closing (provided that a delay in Closing due to a failure of performance by Lessor shall not result in an increase in the Option Price) as follows: (i) if Closing occurs prior to July 1, 1998, the Option Price is $11,500,000; ii) if Closing occurs after June 30, 1998 and prior to April 1, 1999, the Option Price shall increase by $55, 555 per month with no proration for any partial month (for example, if Closing occurs in July 1998 the Option Price shall be $11,555,555; if Closing occurs in August 1998, the Option Price shall be $11,611,110, and so forth until April 1999); iii) if Closing occurs after March 31, 1999, Option Price is $12,500,000.(TM)

Units: Section 30.3b) i) of the Lease is modified to provide: a) that Lessor and the partners of Lessor shall have the right but not the obligation, under an agreement reasonably satisfactory in form to Lessee, to guarantee debt of Lessee at the time of acquisition of Units at closing but without any right to control the terms or payment of existing or future debt of Lessee b) that Lessor or the partners of Lessor are, for a period of one year from date of the issuance of Units to Lessor or its partners, prohibited from converting Units to shares of common stock of Cavanaughs Hospitality Corporation; c) that conveyances to Lessee may be by deeds for undivided interests in the Property; and d) that Lessee will reasonably cooperate with Lessor, without expense or liability to Lessee, in structuring the Units by Lessor and Lessor's partners as non-taxable transactions, however the non-taxable status of the transaction described in the Lease is not a pre-condition to performance by Lessor or Lessor's partners of Lessor's obligations under the Lease.

EXECUTED as of the date first above written.

Cavanaughs Hospitality Corporation	*Dunson Ridpath Hotel Associates Limited Partnership by Spokane Hotel, Inc., General Partner*
by /s/ Donald K. Barbieri	*by /s/ Gordan Sondland*
Donald K. Barbieri	*Gordan Sondland*
its President	*its President*

First Addendum to Ridpath Lease-Option (11/25/97)

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Cavanaughs Hospitality Limited Partnership ??? Cavanaughs Hospitality Corporation
??? partner

by /s/ Donald K. Barbieri
Donald K. Barbieri
President
STATE OF WASHINGTON

)SS
County of Spokane

I certify that I know or have satisfactory evidence Donald K. Barbieri is the person who appeared before me, and said person acknowledged that (he/she) signed this instrument, on oath stated that (he/she) was authorized to execute the instrument and acknowledged it as the President of Cavanaughs Hospitality Corporation in its own capacity and in the capacity as the general partner of Cavanaughs Hospitality Limited Partnership, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: November 26, 1997.

/s/ Patricia R. Stapleton

Type/Print Name of Notary: *PATRICIA R. STAPLETON*
Notary Public in And For the State of Washington
residing at Spokane
My appointment expires: 01/06/98

[SEAL APPEARS HERE]

STATE OF OREGON

)SS.

County of Multnomah

I certify that I know or have satisfactory evidence Gordan Sondland is the person who appeared before me, and said person acknowledged that (he/she) signed this instrument, on oath stated that (he/she) was authorized to execute the instrument and acknowledged it as the President of Spokane Hotel Inc. in its capacity as General Partner of Dunson Ridpath Hotel Associates Limited Partnership, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: November 25, 1997.

/s/ Penelope Gresham

Type/Print Name of Notary: *Penelope Gresham*
Notary Public in And For the State of Oregon
residing at Gresham, Oregon
My appointment expires: May 18, 1998

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[SEAL APPEARS HERE]

First Addendum to Ridpath Lease-Option (11/25/97)

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PARCEL 1

Lots 3, 4, 5, and 8, Block 9; and Lots 3, 4, 5 and 6, Block 13, RAILROAD ADDITION, according to plat recorded in Volume "D" of Plats, Page 82, in the City of Spokane, Spokane County, Washington.

TOGETHER WITH that portion of vacated alley lying South of and adjacent to said Block 13, as set forth in Ordinance No. 29154, filed as Recording No. 8808230119.

PARCEL 2

That portion of Lots 8, 9 and 10 and of the Easterly 15 feet of Lot 11, Block "A" of RAILWAY COMPANY'S SUBDIVISION OF ITS RIGHT OF WAY, lying Northerly of the Northerly retaining wall supporting Railway Company's tracks, in the City of Spokane, Spokane County, Washington.

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EXHIBIT 11.0

CAVANAUGHS HOSPITALITY CORPORATION
COMPUTATION OF EARNINGS PER SHARE

	SHARES OUTSTANDING	NUMBER OF DAYS	WEIGHTED AVERAGE	NET INCOME (LOSS)	PER SHARE
Pro forma earnings per share for the year ended October 31, 1997 /1/.....	7,072,023	365	7,072,023	$1,709,000	$0.24
Income per share for the period ended December 31, 1997.....	7,072,023	61	7,072,023	6,000	nil

/1/ The earnings per share reflect the number of shares outstanding after the merger of the companies and partnerships (see Note 15 to the historical combined financial statements) As of October 31, 1997 and December 31, 1997, there were no dilutive securities outstanding.

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EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the inclusion in this registration statement on Form S-1 (File No. 333-44491) of our report dated February 16, 1998, on our audits of the combined financial statements of Cavanaughs Hospitality Corporation, Barbieri Investment Company and Lincoln Building Limited Partnership. We also consent to the reference to our firm under the caption "Experts".

/s/ COOPERS & LYBRAND
L.L.P.

Spokane, Washington
February 26, 1998

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ARTICLE 5
MULTIPLIER: 1,000

PERIOD TYPE	YEAR	2 MOS
FISCAL YEAR END	OCT 31 1997	DEC 31 1997
PERIOD END	OCT 31 1997	DEC 31 1997
CASH	6,440	4,995
SECURITIES	0	0
RECEIVABLES	2886	2,896
ALLOWANCES	(80)	(11)
INVENTORY	376	427
CURRENT ASSETS	10,750	9,267
PP&E	144,279	146,679
DEPRECIATION	(34,325)	(34,445)
TOTAL ASSETS	124,104	125,117
CURRENT LIABILITIES	13,582	14,088
BONDS	93,771	94,419
PREFERRED MANDATORY	0	0
PREFERRED	495	0
COMMON	704	71
OTHER SE	7,327	8,461
TOTAL LIABILITY AND EQUITY	124,104	125,117
SALES	52,043	8,838
TOTAL REVENUES	52,043	8,838
CGS	22,927	4,450
TOTAL COSTS	41,408	7,495
OTHER EXPENSES	0	0
LOSS PROVISION	0	0
INTEREST EXPENSE	8,817	1,422
INCOME PRETAX	2,641	0
INCOME TAX	932	6
INCOME CONTINUING	1,709	6
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	1,709	6
EPS PRIMARY	0.24	0
EPS DILUTED	0.24	0

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