

INNSUITES HOSPITALITY TRUST
Form 10-Q
June 02, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

**QUARTERLY REPORT
PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2006**

Commission File Number 1-7062

INNSUITES HOSPITALITY TRUST
(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-6647590
(I.R.S. Employer Identification Number)

**InnSuites Hotels Centre
1615 E. Northern Ave., Suite 102
Phoenix, AZ 85020**
(Address of principal executive offices)

Registrant's telephone number, including area code: **(602) 944-1500**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated

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filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of outstanding Shares of Beneficial Interest, without par value, as of May 31, 2006: 9,275,599.

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | APRIL 30, 2006 (UNAUDITED) | JANUARY 31, 2006 (AUDITED) |
|--|-------------------------------|----------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 55,355 | 34,251 |
| Restricted Cash | 300,826 | 226,294 |
| Accounts Receivable, including \$0 and \$14,828 from related parties, net of Allowance for Doubtful Accounts of \$30,000 and \$112,000, as of April 30, and January 31, 2006, respectively | 657,495 | 531,961 |
| Prepaid Expenses and Other Current Assets | 433,593 | 494,829 |
| Total Current Assets | 1,447,269 | 1,287,335 |
| Hotel Properties, net | 30,100,779 | 30,215,391 |
| Deferred Finance Costs, Long-Term Portion | 166,823 | 175,645 |
| Deposits, Long-Term | 14,987 | 14,987 |
| Deferred Income Tax Benefit | 259,000 | 259,000 |
| TOTAL ASSETS | \$ 31,988,858 | 31,952,358 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Current Liabilities : | | |
| Accounts Payable and Accrued Expenses, including \$69,843 and \$95,418 accrued interest and payables to related parties as of April 30, and January 31, 2006, respectively | \$ 2,578,528 | 2,594,733 |
| Notes Payable to Banks | — | 500,000 |
| Current Portion of Mortgage Notes Payable | 896,300 | 879,265 |
| Current Portion of Other Notes Payable | 107,672 | 121,558 |
| Current Portion of Notes Payable to Related Parties | 29,500 | 428,989 |
| Total Current Liabilities | 3,612,000 | 4,524,545 |
| Mortgage Notes Payable | 18,796,440 | 19,029,612 |
| Notes Payable to Related Parties | 478,147 | 85,717 |
| Other Notes Payable | 209,143 | 206,424 |
| TOTAL LIABILITIES | 23,095,730 | 23,846,298 |
| MINORITY INTEREST IN PARTNERSHIP | 1,440,651 | 1,388,132 |

SHAREHOLDERS' EQUITY

| | | |
|--|----------------------|-------------------|
| Shares of Beneficial Interest, without par value; unlimited authorization; 9,281,201 and 9,145,365 shares issued and outstanding at April 30, and January 31, 2006, respectively | 17,764,700 | 17,155,106 |
| Treasury Stock, 7,404,405 and 7,494,578 shares held at April 30, and January 31, 2006, respectively | (10,312,223) | (10,437,178) |
| TOTAL SHAREHOLDERS' EQUITY | 7,452,477 | 6,717,928 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 31,988,858 | 31,952,358 |

See accompanying notes to unaudited consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

| | FOR THE THREE MONTHS ENDED | |
|--|-----------------------------------|------------------|
| | APRIL 30, | |
| | 2006 | 2005 |
| REVENUE | | |
| Room | \$ 4,953,212 | 5,255,107 |
| Food and Beverage | 353,577 | 297,342 |
| Telecommunications | 9,576 | 21,317 |
| Other | 125,732 | 199,314 |
| Management and Trademark Fees, including \$102,239 and \$38,163 from related parties, for the three months ended April 30, 2006 and 2005, respectively | 143,712 | 76,735 |
| Payroll Reimbursements, including \$733,700 and \$543,501 from related parties, for the three months ended April 30, 2006 and 2005, respectively | 926,246 | 723,618 |
| TOTAL REVENUE | 6,512,055 | 6,573,433 |
| OPERATING EXPENSES | | |
| Room | 1,124,915 | 1,205,113 |
| Food and Beverage | 303,299 | 292,357 |
| Telecommunications | 41,796 | 51,492 |
| General and Administrative | 849,904 | 1,256,244 |
| Sales and Marketing | 339,604 | 389,675 |
| Repairs and Maintenance | 338,439 | 368,408 |
| Hospitality | 200,710 | 200,404 |
| Utilities | 256,105 | 273,280 |
| Hotel Property Depreciation | 514,351 | 516,465 |
| Real Estate and Personal Property Taxes, Insurance and Ground Rent | 305,581 | 337,869 |
| Other | 36,331 | 49,463 |
| Payroll Expenses | 926,246 | 723,618 |
| TOTAL OPERATING EXPENSES | 5,237,281 | 5,664,388 |
| OPERATING INCOME | 1,274,774 | 909,045 |
| Interest Income | 1,213 | 472 |
| TOTAL OTHER INCOME | 1,213 | 472 |
| Interest on Mortgage Notes Payable | 425,881 | 489,469 |
| Interest on Notes Payable to Banks | 1,397 | 5,685 |
| Interest on Notes Payable and Advances to Related Parties | 8,888 | 3,798 |
| Interest on Other Notes Payable | 5,613 | 4,217 |
| TOTAL INTEREST EXPENSE | 441,779 | 503,169 |
| INCOME BEFORE MINORITY INTEREST AND INCOME TAXES | 834,208 | 406,348 |
| LESS MINORITY INTEREST | 70,198 | (29,953) |
| INCOME ATTRIBUTABLE TO SHARES OF BENEFICIAL INTEREST BEFORE INCOME TAXES | 764,010 | 436,301 |

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| | | | |
|---|----|------------|------------|
| INCOME TAX PROVISION (Note 6) | | (78,500) | (32,000) |
| INCOME ATTRIBUTABLE TO SHARES OF BENEFICIAL INTEREST | \$ | 685,510 | 404,301 |
| NET INCOME PER SHARE - BASIC | \$ | 0.07 | 0.05 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC | | 9,273,133 | 8,838,189 |
| NET INCOME PER SHARE - DILUTED | \$ | 0.06 | 0.03 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED | | 13,306,086 | 13,376,030 |

See accompanying notes to unaudited consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED
APRIL 30,

| | 2006 | 2005 |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income Attributable to Shares of Beneficial Interest | \$ 685,510 | 404,301 |
| Adjustments to Reconcile Net Income Attributable to Shares of Beneficial Interest to Net Cash Provided By (Used In) Operating Activities: | | |
| Minority Interest | 70,198 | (29,953) |
| Provision for Uncollectible Receivables | 2,360 | 109,728 |
| Deferred stock compensation expense | 22,815 | — |
| Depreciation and Amortization | 523,252 | 525,828 |
| Loss on Disposal | 975 | 5,179 |
| Changes in Assets and Liabilities, net of effect of consolidation of Suite Hospitality Management and InnSuites Licensing Corp: | | |
| Increase in Accounts Receivable | (125,842) | (116,793) |
| Decrease (Increase) in Prepaid Expenses and Other Assets | 61,157 | (4,369) |
| Increase (Decrease) in Accounts Payable and Accrued Expenses | 12,955 | (221,508) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,253,380 | 672,413 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Change in Restricted Cash | (74,532) | 7,315 |
| Improvements and Additions to Hotel Properties | (400,714) | (269,946) |
| NET CASH USED IN BY INVESTING ACTIVITIES | (475,246) | (262,631) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal Payments on Mortgage Notes Payable | (216,137) | (260,265) |
| Payments on Notes Payable to Banks | (500,000) | (770,000) |
| Borrowings on Notes Payable to Banks | — | 670,000 |
| Repurchase of Partnership Units | (246) | — |
| Repurchase of Treasury Stock | (5,421) | (16,825) |
| Payments on Notes and Advances Payable to Related Parties | (7,059) | (10,580) |
| Borrowings on Notes and Advances Payable to Related Parties | — | — |
| Payments on Other Notes Payable | (28,167) | (23,455) |
| NET CASH USED IN FINANCING ACTIVITIES | (757,030) | (411,125) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 21,104 | (1,343) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 34,251 | 1,343 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 55,355 | — |

See Supplemental Disclosures at Note 5

See accompanying notes to unaudited
consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE MONTHS ENDED APRIL 30, 2006 AND 2005

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

InnSuites Hospitality Trust (the "Trust") is an unincorporated real estate investment trust in the State of Ohio that at April 30, 2006 owned four hotels through a partnership interest in RRF Limited Partnership (the "Partnership") and one hotel directly (the "Hotels") with an aggregate of 843 suites in Arizona, southern California and New Mexico. The Trust is the sole general partner in the Partnership. The Hotels are managed by InnSuites Hotels, Inc. ("InnSuites Hotels"), which is a wholly-owned subsidiary of the Trust.

InnSuites Hotels holds management contracts under which it provides hotel management services to the Hotels, as well as four hotels with an aggregate of 544 suites owned by affiliates of James F. Wirth ("Wirth") and one unrelated hotel property with 131 suites. Under the management agreements, InnSuites Hotels provides the personnel at the hotels, the expenses of which are reimbursed at cost, and manages the hotels' daily operations, for which it receives a percentage of revenue from the hotels. InnSuites Hotels also holds licensing agreements and the "InnSuites" trademarks and provides licensing services to the Hotels, as well as the four hotels owned by affiliates of Wirth with an aggregate of 544 suites and two unrelated hotel properties with an aggregate of 307 suites. Under the licensing agreements, InnSuites Hotels receives a percentage of revenue from the hotels in exchange for use of the "InnSuites" trademark. All significant intercompany transactions and balances have been eliminated in consolidation.

The Trust's general partnership interest in the Partnership was 69.53% and 67.19% on April 30, 2006 and 2005, respectively, and the weighted average for the three months ended April 30, 2006 and 2005 was 69.47% and 65.65%, respectively.

PARTNERSHIP AGREEMENT

The Partnership Agreement of the Partnership (the "Partnership Agreement") provides for the issuance of two classes of limited partnership units, Class A and Class B. Such classes are identical in all respects, except that each Class A limited partnership unit is convertible into a like number of Shares of Beneficial Interest of the Trust at any time at the option of the particular limited partner. As of April 30, 2006, a total of 617,287 Class A limited partnership units were issued and outstanding. Additionally, a total of 3,407,938 Class B limited partnership units were held by Wirth and his affiliates on that date, in lieu of the issuance of Class A limited partnership units. Each Class B limited partnership unit is convertible only with the approval of the Board of Trustees, in its sole discretion. If all of the Class A and B limited partnership units were converted, the limited partners in the Partnership would receive 4,025,225 Shares of Beneficial Interest of the Trust.

BASIS OF PRESENTATION

The financial statements of the Partnership, InnSuites Hotels and Yuma Hospitality LP are consolidated with the Trust, and all significant intercompany transactions and balances have been eliminated.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended April 30,

2006 are not necessarily indicative of the results that may be expected for the year ended January 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Trust's Annual Report on Form 10-K/A as of and for the year ended January 31, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF 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, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies that the Trust believes are most critical and involve the most subjective judgments include estimates and assumptions of future revenue and expenditures used to project cash flows. Future cash flows are used to determine the recoverability (or impairment) of the carrying values of the Trust's assets in the event management is required to test an asset for recoverability of carrying value under Statement of Financial Accounting Standards No. 144. If the carrying value of an asset exceeds the estimated future undiscounted cash flows over its estimated remaining life, the Trust recognizes an impairment expense to reduce the asset's carrying value to its fair value. Fair value is determined by either the most current third-party property appraisal, if available, or the present value of future undiscounted cash flows over the remaining life of the asset. The Trust's evaluation of future cash flows is based on historical experience and other factors, including certain economic conditions and committed future bookings. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows.

REVENUE RECOGNITION

Room, food and beverage, telecommunications, management and licensing fees and other revenue are recognized as earned as services are provided and items are sold. Payroll reimbursements are recorded as personnel services are provided and are not netted with the corresponding payroll expense.

EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share have been computed based on the weighted-average number of shares outstanding during the periods and potentially dilutive securities.

For the three months ended April 30, 2006 and 2005, there were Class A and Class B limited partnership units outstanding, which are convertible to Shares of Beneficial Interest of the Trust. Assuming conversion, the aggregate weighted-average of these Shares of Beneficial Interest would be 4,032,953 and 4,537,841 for the first three months of fiscal year 2007 and 2006, respectively.

For the three months ended April 30, 2005, 232,600 stock options are not included in the computation of diluted earnings (loss) per share as their inclusion would have an anti-dilutive effect because the option exercise prices were higher than the average market price of the Trust's Shares of Beneficial Interest. As of April 30, 2006, the Trust has no stock options outstanding. During the second quarter of fiscal year of 2006, the Trust accepted the voluntary surrender of all outstanding stock options. The options were surrendered in order to reduce costs and simplify the Trust's reporting and compliance obligations to the Securities and Exchange Commission and the American Stock Exchange. The Trust made no payments to the holders of the options for their surrender. The Trust has no obligation, explicit or implied, for the surrender of the options, including but not limited to the reissuance of options at some time in the future.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, Statement of Financial Accounting Standards No. 123 (revised 2004) was issued. This Statement is a revision of FASB Statement No. 123, Accounting for Stock Based Compensation, and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees. This Statement establishes standards for accounting for transactions in which an entity exchanges its equity securities for goods and services. The Trust adopted this Statement during fiscal year 2006.

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During the first quarter of fiscal year 2007, the Trust issued 99,300 restricted shares to its Trustees, Officers and other key employees with a total fair value of \$134,055. Fair value was calculated using the closing share price on the date of the grant. The shares were issued from the Trust's treasury stock. During the first quarter of fiscal year 2007, the Trust recognized expense on these shares totaling \$22,815. As of April 30, 2006, total unrecognized expense related to unvested stock awards totals \$80,028, which will be recognized evenly over the next eight months. The following table summarizes restricted share activity during the three months ended April 30, 2006:

| | Restricted Shares | |
|-----------------------------|-------------------|--|
| | Shares | Weighted-Average Grant Date Fair Value |
| Balance at January 31, 2006 | | — |
| Granted | 99,300 | \$1.35 |
| Vested | (40,020) | \$1.35 |
| Forfeited | | — |
| Balance at April 30, 2006 | 59,280 | \$1.35 |

No cash was paid out or received by the Trust relating to restricted share awards during the three months ended April 30, 2006.

3. RELATED PARTY TRANSACTIONS

As of April 30, 2006 and 2005, Wirth and his affiliates held 3,407,938 and 3,467,938 Class B limited partnership units in the Partnership, respectively. As of April 30, 2006 and 2005, Wirth and his affiliates held 5,573,624 and 5,817,869 Shares of Beneficial Interest of the Trust, respectively.

The Trust paid interest on related party notes to Wirth and his affiliates in the amounts of \$10,811 and \$8,905 for the three months ended April 30, 2006 and 2005, respectively. The Trust recognized interest expense on related party notes to Wirth and his affiliates in the amounts of \$6,922 and \$2,223 for the three months ended April 30, 2006 and 2005, respectively. The Trust had accrued but unpaid interest on related party notes to Wirth and his affiliates in the amounts of \$4,744 and \$8,633 as of April 30, 2006 and January 31, 2006, respectively.

The Trust recognized interest expense on other related party notes in the amounts of \$1,966 and \$1,575 for the three months ended April 30, 2006 and 2005, respectively, which was paid during the same time periods. The Trust had no unpaid interest on these notes as of April 30, 2006 and January 31, 2006.

Notes and advances payable to related parties at April 30, 2006 and January 31, 2006 consist of notes payable to Rare Earth Financial, LLC, an affiliate of Wirth and notes payable to Mason Anderson, former Trustee of the Trust, and his affiliates to repurchase Shares of Beneficial Interest in the Trust. The aggregate amounts outstanding were approximately \$508,000 and \$515,000 as of April 30, 2006 and January 31, 2006, respectively. The notes and advances payable to related parties consist of:

| | April 30, 2006 | January 31, 2006 |
|--|----------------|------------------|
| Note payable to The Anderson Charitable Remainder Unitrust, an affiliate of Mason Anderson, former Trustee of the Trust, bearing interest at 7% per annum, and secured by Shares of Beneficial Interest in the Trust. Due in monthly principal and interest payments of \$1,365 through November 2009. | \$ 51,777 | \$ 54,929 |

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| | | |
|---|--------|--------|
| Note payable to Wayne Anderson, son of Mason Anderson, former Trustee of the Trust, bearing interest at 7% per annum, and secured by Shares of Beneficial Interest in the Trust. Due in monthly principal and interest payments of \$574 through June 2009. | 19,521 | 20,886 |
|---|--------|--------|

| | | |
|--|--------|--------|
| Note payable to Karen Anderson, daughter of Mason Anderson, former Trustee of the Trust, bearing interest at 7% per annum, and secured by Shares of Beneficial Interest in the Trust. Due in monthly principal and interest payments of \$574 through June 2009. | 19,521 | 20,886 |
|--|--------|--------|

| | | |
|--|--------|--------|
| Note payable to Kathy Anderson, daughter of Mason Anderson, former Trustee of the Trust, bearing interest at 7% per annum, and secured by Shares of Beneficial Interest in the Trust. Due in monthly principal and interest payments of \$495 through June 2009. | 16,828 | 18,005 |
|--|--------|--------|

| | | |
|---|-------------------|-------------------|
| Note payable to Rare Earth Financial, L.L.C., affiliate of Wirth. Fully satisfied in March 2006 using the line of credit established with Rare Earth Financial, L.L.C. | — | 400,000 |
| Revolving line of credit to Rare Earth Financial, L.L.C., affiliate of Wirth, bearing interest at 7% per annum, and secured by the Partnership's ownership interest in Tucson St. Mary's Hospitality LLC. Due in monthly interest installments with unpaid principal due in March 2008. | 400,000 | — |
| Totals | \$ 507,647 | \$ 514,706 |

4. NOTES PAYABLE TO BANKS

The Trust has a bank line of credit secured by a security agreement, business loan agreement and commercial guaranty of the Partnership, all dated July 21, 2004. The line of credit is secured by the assets of the Trust alone, which is comprised mainly of its investment in its subsidiaries. Under the terms of the line of credit, the Trust can draw up to \$500,000, bearing interest at prime plus 1.0% (9.25% as of April 30, 2006) per annum, and is required to make monthly interest-only payments. The line of credit was scheduled to mature on May 31, 2006. Subsequent to April 30, 2006, the Trust extended the line of credit until May 30, 2007. As of April 30, 2006, the Trust had no balance drawn under the line of credit and, of January 31, 2006, the Trust had \$500,000 drawn under the line of credit.

5. STATEMENTS OF CASH FLOWS, SUPPLEMENTAL DISCLOSURES

The Trust paid \$443,476 and \$504,047 in cash for interest for the three months ended April 30, 2006 and 2005, respectively.

During the first quarter of fiscal year 2006, the Trust issued 29,600 Shares of Beneficial Interest with an aggregate value of \$37,888 to its Trustees and an officer in exchange for services rendered.

During the first quarter of fiscal year 2006, the Trust issued 322,242 Shares of Beneficial Interest with an aggregate value of \$406,025 in exchange for 322,242 Class A limited partnership units in the Partnership held by unrelated third parties.

During the first quarter of fiscal year 2007, the Trust issued 45,663 Shares of Beneficial Interest with an aggregate value of \$61,746 in exchange for 45,663 Class A limited partnership units in the Partnership held by unrelated third parties.

During the first quarter of fiscal year 2007, the Trust issued 21,600 Shares of Beneficial Interest, with a total value of \$29,160, to the Trustees in exchange for their services during fiscal year 2006. The Trust also issued 36,000 Shares of Beneficial Interest, with a total value of \$48,600, to the Trustees as prepayment for their services in fiscal year 2007. As of April 30, 2006, 28,800 of these shares, with a total value of \$38,880, remain unvested and are recorded as an offset to shareholders equity.

During the first quarter of fiscal year 2007, the Trust issued 41,700 Shares of Beneficial Interest, with a total value of \$56,295, as bonuses to its executive officers and other key employees. As of April 30, 2006, 30,480 of these shares, with a total value of \$41,148, remain unvested and are recorded as an offset to shareholders equity.

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During the first quarter of fiscal year 2007, the Trust issued a promissory note to an unrelated third party for \$17,000 in exchange for 6,667 Class A units in the Partnership and 5,827 Shares of Beneficial Interest.

During the first quarter of fiscal year 2007, the Trust satisfied its \$400,000 note payable to Rare Earth Financial, LLC, an affiliate of Wirth, with the establishment of a line of credit with Rare Earth Financial. The \$400,000 due and payable was converted to a balance due under the line of credit.

6. INCOME TAXES

The Trust has recorded income tax provisions of \$78,500 and \$32,000 for the three months ended April 30, 2006 and 2005, respectively. The Trust has a net deferred tax asset of \$259,000 at both April 30, 2006 and January 31, 2006. The Trust has a current income tax liability of \$182,000 and \$241,000 as of April 30, 2006 and January 31, 2006, respectively.

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

GENERAL

The following discussion should be read in conjunction with the InnSuites Hospitality Trust unaudited consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q.

The Trust owns the sole general partner's interest in the Partnership. The Trust's principal source of cash flows is the operations of the Hotels and management and licensing contracts held with affiliated and third-party hotels outside the Trust.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, Statement of Financial Accounting Standards No. 123 (revised 2004) was issued. This Statement is a revision of FASB Statement No. 123, Accounting for Stock Based Compensation, and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees. This Statement establishes standards for accounting for transactions in which an entity exchanges its equity securities for goods and services. The Trust adopted this Statement during fiscal year 2006.

RESULTS OF OPERATIONS

The expenses of the Trust consist primarily of property taxes, insurance, corporate overhead, interest on mortgage debt, professional fees, depreciation of the Hotels and hotel operating expenses. The operating performance of the Trust is principally related to the performance of the Hotels. Therefore, management believes that a review of the historical performance of the operations of the Hotels, particularly with respect to occupancy, calculated as rooms sold divided by the number of rooms available, average daily rate ("ADR"), calculated as total room revenue divided by number of rooms sold, and revenue per available room ("REVPAR"), calculated as total room revenue divided by the total number of rooms available, is appropriate for understanding revenue from the Hotels. Occupancy improved to 83.5%, an increase of 4.9% from the prior year period. ADR decreased \$0.30 to \$79.02 from \$79.32 in the prior year period. REVPAR increased \$3.67 to \$66.02 from \$62.35 in the prior year period due to the increased occupancy.

The following table shows certain historical financial and other information for the periods indicated:

| | FOR THE THREE MONTHS ENDED APRIL 30, | |
|--|---|-------------|
| | 2006 | 2005 |
| OCCUPANCY | 83.5% | 78.6% |
| AVERAGE DAILY RATE (ADR) | \$ 79.02 | 79.32 |
| REVENUE PER AVAILABLE ROOM (REVPAR) | \$ 66.02 | 62.35 |

No assurance can be given that the trends reflected in this data will continue or that occupancy, ADR or REVPAR will not decrease as a result of changes in national or local economic or hospitality industry conditions.

RESULTS OF OPERATIONS OF THE TRUST FOR THE THREE MONTHS ENDED APRIL 30, 2006 COMPARED TO THE THREE MONTHS ENDED APRIL 30, 2005

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A summary of the operating results for the three months ended April 30, 2006 and 2005 is:

| | 2006 | 2005 | Change | % Change |
|---|--------------|--------------|---------------|---------------------|
| Revenue | \$ 6,512,055 | \$ 6,573,433 | \$ (61,378) | (0.9)% |
| Operating Income | \$ 1,274,774 | \$ 909,045 | \$ 365,729 | 40.2% |
| Net Income Attributable to Shares of Beneficial Interest | \$ 685,510 | \$ 404,301 | \$ 281,209 | 69.6% |
| Net Income Per Share - Basic | \$ 0.07 | \$ 0.05 | \$ 0.02 | 40.0% |
| Net Income Per Share - Diluted | \$ 0.06 | \$ 0.03 | \$ 0.03 | 100.0% |

Total Trust revenue was \$6.5 million for the three months ended April 30, 2006, a decrease of \$61,000, or 0.9%, from the prior year total. Revenues from hotel operations, which include Room, Food and Beverage, Telecommunications and Other revenues, decreased 5.7% to \$5.4 million from \$5.8 million when comparing the three months ended April 30, 2006 and 2005, respectively, primarily due to the disposition of the Phoenix, Arizona property during the second quarter of fiscal year 2006.

Total expenses decreased \$489,000, or 7.9%, to \$5.7 million from \$6.2 million when comparing the three months ended April 30, 2006 and 2005. Total operating expenses decreased \$427,000, or 7.5%, to \$5.2 million from \$5.7 million for three months ended April 30, 2006 and 2005, respectively. The decreases in these totals is primarily due to the disposition of the Phoenix, Arizona hotel, which was partially offset by higher payroll expenses relating to management contracts with hotels outside the Trust.

General and administrative expenses decreased \$406,000, or 32.3%, to \$850,000 from \$1.3 million when comparing the three months ended April 30, 2006 and 2005, respectively. This is primarily due to accounting and legal fees incurred in fiscal year 2006 relating to amendments to certain of the Trust's filings with the Securities and Exchange Commission, reduced bad debt expense due to improved receivable collections in fiscal year 2007, and the disposition of the Phoenix, Arizona hotel in the prior year.

Total interest expense was \$442,000 for the three months ended April 30, 2006, a decrease of \$61,000, or 12.2%, from the prior year period total of \$503,000. The decrease was primarily due to the disposition of the Phoenix, Arizona property, which had incurred \$67,000 of mortgage interest expense during the first quarter of fiscal year 2006.

LIQUIDITY AND CAPITAL RESOURCES

Through its ownership interest in the Partnership, Yuma Hospitality LP and InnSuites Hotels, the Trust has its proportionate share of the benefits and obligations of the Partnership's and Yuma Hospitality LP's ownership interests, as well as InnSuites Hotels' operational interests, in the Hotels. The Trust's principal source of cash to meet its cash requirements, including distributions to its shareholders, is its share of these cash flows. The Trust's liquidity, including its ability to make distributions to its shareholders, will depend upon the ability to generate sufficient cash flows from Hotel operations.

The Trust has principal of \$661,262 due and payable for the remainder of fiscal year 2007 under mortgage notes payable. For the twelve months between May 1, 2006 and April 30, 2007, the Trust has principal of \$896,300 due and payable under mortgage notes payable. The Trust anticipates that cash flows from operations will be sufficient to satisfy these obligations as they become due.

The Trust has no principal due and payable in fiscal year 2007 under notes and advances payable to Wirth and his affiliates. The Trust had \$400,000 due to Rare Earth Financial, L.L.C., an affiliate of Wirth, in March 2006. The Trust satisfied this note using the line of credit established with Rare Earth Financial in March 2006. For the twelve months between May 1, 2006 and April 30, 2007, the Trust has no principal due and payable under notes payable to Wirth and his affiliates.

The Trust's bank line of credit was scheduled to mature on May 31, 2006. The Trust has extended the maturity date on the line of credit through May 30, 2007. As of April 30, 2006, there were no draws under the bank line of credit and \$500,000 was available for future draws.

The Trust may seek to negotiate additional credit facilities or issue debt instruments. Any debt incurred or issued by the Trust may be secured or unsecured, long-term, medium-term or short-term, bear interest at a fixed or variable rate and be subject to such other terms as the Trust considers prudent.

The Trust continues to contribute to a Capital Expenditures Fund (the "Fund") an amount equal to 4% of the InnSuites Hotels' revenues from operation of the Hotels. The Fund is restricted by the mortgage lender for five of the Trust's properties. As of April 30, 2006, \$300,826 was held in restricted capital expenditure funds and is included on the Trust's Balance Sheet as "Restricted Cash." The Fund is intended to be used for capital improvements to the Hotels and for refurbishment and replacement of furniture, fixtures and equipment, in addition to other uses of amounts in the

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Fund considered appropriate from time to time. During the three months ended April 30, 2006, the Hotels spent approximately \$400,714 for capital expenditures. The Trust considers the majority of these improvements to be revenue producing. Therefore, these amounts have been capitalized and are being depreciated over their estimated useful lives. The Hotels also spent approximately \$338,439 during the three months ended April 30, 2006 on repairs and maintenance and these amounts have been charged to expense as incurred.

As of April 30, 2006, the Trust has no commitments for capital expenditures beyond the 4% reserve for refurbishment and replacements set aside annually for each hotel property.

The Trust may acquire or develop additional hotels only as suitable opportunities arise, and the Trust will not undertake acquisition or redevelopment of properties unless adequate sources of financing are available. Funds for future acquisitions or development of hotels are expected to be derived, in whole or in part, from borrowings or from the proceeds of additional issuances of Shares of Beneficial Interest or other securities. However, there can be no assurance that the Trust will successfully acquire or develop additional hotels.

FUTURE POSITIONING

The Trust's management has identified condo-hotel conversions as a potential opportunity for the Trust. The conversion concept has become increasingly popular throughout the country, and may have the potential to eclipse time-share or fractional ownership as the preferred vacation, second or third home ownership vehicle. The Trust, through its wholly-owned subsidiary, InnSuites Hotels, is currently evaluating the potential for condo-hotel ownership primarily for its Arizona locations. If the Trust determines this concept to be feasible for its current hotel properties, the Trust may realize condominium sales revenue and revenue from long-term management and trademark agreements with potential homeowners' associations and/or future condominium owners.

OFF-BALANCE SHEET FINANCINGS AND LIABILITIES

Other than lease commitments, legal contingencies incurred in the normal course of business and an employment contract with Wirth, the Trust does not have any off-balance sheet financing arrangements or liabilities. The Trust does not have any majority-owned subsidiaries that are not included in the consolidated financial statements. (See Note 2 - "Summary of Significant Accounting Policies.")

SEASONALITY

The Hotels' operations historically have been seasonal. The three southern Arizona hotels experience their highest occupancy in the first fiscal quarter and, to a lesser extent, the fourth fiscal quarter. The second fiscal quarter tends to be the lowest period of occupancy at those three southern Arizona hotels. This seasonality pattern can be expected to cause fluctuations in the Trust's quarterly revenue. The two hotels located in California and New Mexico historically experience their most profitable periods during the second and third fiscal quarters (the summer season), providing some balance to the general seasonality of the Trust's hotel business. To the extent that cash flows from operations are insufficient during any quarter, because of temporary or seasonal fluctuations in revenue, the Trust may utilize other cash on hand or borrowings to make distributions to its shareholders or to meet operating needs. No assurance can be given that the Trust will make distributions in the future.

FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q, including statements containing the phrases "believes," "intends," "expects," "anticipates," "predicts," "should be," "looking ahead," "may" or similar words, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Trust intends that such forward-looking statements be subject to the safe harbors created by such Acts. These forward-looking statements include statements regarding the intent, belief or current expectations of the Trust, its Trustees or its officers in respect of (i) the declaration or payment of dividends; (ii) the leasing, management or operation of the Hotels; (iii) the adequacy of reserves for renovation and refurbishment; (iv) the Trust's financing plans; (v) the Trust's position regarding investments, acquisitions, developments, financings, conflicts of interest and other matters; (vi) the Trust's plans and expectations regarding condo-hotel conversions; and (vii) trends affecting the Trust's or any Hotel's financial condition or results of operations.

These forward-looking statements reflect the Trust's current views in respect of future events and financial performance, but are subject to many uncertainties and factors relating to the operations and business environment of the Hotels which may cause the actual results of the Trust to differ materially from any future results expressed or implied by such forward-looking statements. Examples of such uncertainties include, but are not limited to:

- fluctuations in hotel occupancy rates;
- changes in room rental rates which may be charged by InnSuites Hotels in response to market rental rate changes or otherwise;

- seasonality of our business;
- interest rate fluctuations;
- changes in governmental regulations, including federal income tax laws and regulations;
- competition;
- any changes in the Trust's financial condition or operating results due to acquisitions or dispositions of hotel properties;
- insufficient resources to pursue our current growth strategy;
- concentration of our investments in the InnSuites Hotels® brand;
- loss of franchise contracts;
- real estate and hospitality market conditions;
- hospitality industry factors;
- our ability to meet present and future debt service obligations;
- terrorist attacks or other acts of war;

- outbreaks of communicable diseases;
- natural disasters;
- loss of key personnel;
- local or national economic and business conditions, including, without limitation, conditions which may affect public securities markets generally, the hospitality industry or the markets in which the Trust operates or will operate; and
- uncertainties the Trust might encounter in changing from a real estate investment trust to a tax-paying entity.

The Trust does not undertake any obligation to update publicly or revise any forward-looking statements whether as a result of new information, future events or otherwise. Pursuant to Section 21E(b)(2)(E) of the Securities Exchange Act of 1934, the qualifications set forth hereinabove are inapplicable to any forward-looking statements in this Form 10-Q relating to the operations of the Partnership.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Trust is exposed to interest rate risk primarily as a result of its mortgage notes payable, notes payable to banks and other notes payable. Proceeds from these loans were used to maintain liquidity, fund capital expenditures and expand the Trust's real estate investment portfolio and operations.

The Trust's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the Trust borrows using fixed rate debt, when possible. There have been no significant changes in the Trust's debt structure during the three months ended April 30, 2006.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Trust conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Trust's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the principal executive officer and principal financial officer concluded that the Trust's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Trust in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There was no change in the Trust's internal control over financial reporting during the Trust's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Trust's internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on May 12, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On January 2, 2001, the Board of Trustees approved a share repurchase program under Rule 10b-18 of the Securities Exchange Act of 1934, as amended, for the purchase of up to 250,000 limited partnership units in the Partnership and/or Shares of Beneficial Interest in open market or privately negotiated transactions. Additionally, on September 10, 2002, the Board of Trustees approved the purchase of up to 350,000 additional limited partnership units in the Partnership and/or Shares of Beneficial Interest in open market or privately negotiated transactions. On August 18, 2005, the Board of Trustees approved the purchase of up to 350,000 additional limited partnership units in the Partnership and/or Shares of Beneficial Interest in open market or privately negotiated transactions. Acquired Shares of Beneficial Interest will be held in treasury and will be available for future acquisitions and financings and/or for awards granted under the InnSuites Hospitality Trust 1997 Stock Incentive and Option Plan. During the three months ended April 30, 2006, the Trust acquired 9,127 Shares of Beneficial Interest in open market and privately-negotiated transactions at an average price of \$1.46 per share. The Trust intends to continue repurchasing Shares of Beneficial Interest in compliance with applicable legal and American Stock Exchange requirements. The Trust remains authorized to repurchase an additional 198,318 limited partnership units and/or Shares of Beneficial Interest pursuant to the share repurchase program, which has no expiration date.

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Be Yet Purchased Under the Plans |
|-----------------------------------|---|---|---|---|
| February 1 - February 28, 2006 | 500 | \$ 1.35 | 500 | 213,612 |
| March 1 - March 31, 2006 | 7,427 | \$ 1.44 | 7,427 | 199,518* |
| April 1 - April 30, 2006 | 1,200 | \$ 1.63 | 1,200 | 198,318 |

*The Trust purchased 6,667 Class A units in the Partnership for \$1.40 under the repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

a) Exhibits

- 31.1 Section 302 Certification By Chief Executive Officer
- 31.2 Section 302 Certification By Chief Financial Officer
- 32.1 Section 906 Certification of Principal Executive Officer and Principal Financial Officer

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SIGNATURES

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

INNSUITES HOSPITALITY TRUST

Dated: June 2, 2006

/s/ James F. Wirth
James F. Wirth
Chairman, President and Chief Executive
Officer

Dated: June 2, 2006

/s/ Anthony B. Waters
Anthony B. Waters
Chief Financial Officer