

INNSUITES HOSPITALITY TRUST  
Form 10-K/A  
March 24, 2006

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

**FORM 10-K/A**

**FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTIONS 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

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

**For the fiscal year ended January 31, 2005.**

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

**For the transition period from to .**

**Commission File No. 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 Avenue,  
Suite 102, Phoenix, Arizona**  
(Address of Principal Executive Offices)

**85020**  
(ZIP Code)

Registrant's Telephone Number, including area code: **(602) 944-1500**

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of Each Class</b>	<b>Name of Exchange on Which Registered</b>
Shares of Beneficial Interest, without par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

Aggregate market value of voting stock held by non-affiliates of the Registrant as of July 31, 2004: \$2,248,349

Number of shares of voting stock outstanding as of April 22, 2005: 8,906,429.

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EXPLANATORY NOTE

This Amendment No. 1 (this “Amendment”) amends the Registrant’s Annual Report on Form 10-K for the fiscal year ended January 31, 2005 filed on May 16, 2005. The Registrant is filing this Amendment in order to revise (a) its disclosure in Part II - Item 7 under the heading “Contractual Obligations” to include information regarding anticipated interest expense on its contractual obligations and (b) Part II - Item 9A, to reflect the Registrant’s responses to comments received from the Staff of the Securities and Exchange Commission, Division of Corporation Finance. Except as described above, no other changes have been made to the originally filed Form 10-K.

PART II

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Trust is engaged in the ownership and operation of hotel properties. At January 31, 2005, the InnSuites system included six moderate and full-service hotels with 947 hotel suites. Certain of our Hotels are branded through franchise agreements, which include four Best Western hotels and one Holiday Inn hotel. Subsequent to January 31, 2005, the Trust ended its franchise agreement with Holiday Inn and entered into a franchise agreement with Best Western International for the Trust's Ontario, California property. All six Hotels are trademarked as InnSuites Hotels. We are also involved in various operations incidental to the operation of hotels, such as the operation of restaurants and meeting/banquet room rentals.

Our operations consist of one reportable segment, hotel ownership, which derives its revenue from the operation of the Hotels. In addition, we receive management fees and trademark license fees.

Our results are significantly affected by occupancy and room rates at the Hotels, our ability to manage costs, and changes in the number of available suites caused by acquisition and disposition activities. Results are also impacted by overall economic conditions and conditions in the travel industry. Unfavorable changes in these factors could negatively impact hotel room demand and pricing which would reduce our profit margins on rented suites.

Additionally, our ability to manage costs could be adversely impacted by significant increases in operating expenses, resulting in lower operating margins.

We anticipate that the improved economic conditions, combined with the disposition of previously underperforming properties, will create opportunities for the Trust in fiscal year 2006. Better overall economic conditions are expected to result in increased business and leisure travel and support higher room rates, and therefore higher operating margins. Challenges in fiscal year 2006 are expected to include continued competition for group business in the markets in which we operate and the Trust's ability to increase room rates while maintaining market share. We will continue to focus on managing our costs, achieving increased daily rates in the markets where we operate and building occupancy. We believe that our focus on customer service, adding more two-room suites and leveraging technology will enable us to remain competitive.

Effective February 1, 2004, the Trust relinquished its REIT status. As of that date, any distributions to its shareholders are not deductible for purposes of computing the Trust's taxable income and the Trust will be subject to income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates, without offset for distributions of such income to its shareholders.

GENERAL

The following discussion should be read in conjunction with the Trust's consolidated financial statements and notes thereto.

The accounting policies that we believe are most critical and involve the most subjective judgments include our estimates and assumptions of future revenue and expenditures used to project property cash flows. Future cash flows are used in the valuation calculation of our hotel properties to determine the recoverability (or impairment) of the carrying amounts in the event management is required to test the asset for recoverability of its carrying value under Statement of Financial Accounting Standards No. 144. If the carrying amount of an asset exceeds the estimated future 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 cash flows over the remaining life of the asset. Our evaluation of future cash flows is based on our historical experience and other factors, including certain economic conditions and committed future bookings. See “- Critical Accounting Policies and Estimates” below.

At January 31, 2005, the Trust owned a 64.8% interest in five of the Hotels through its sole general partner’s interest in the Partnership and owned a 99.9% interest in one Hotel. The Trust purchased 532,077, 57,509 and 257,101 Partnership units during the years ended January 31, 2005, 2004 and 2003, respectively.

Prior to May 1, 2004, the Partnership leased its hotel properties to InnSuites Hotels. The corresponding rent expense for InnSuites Hotels and rent revenue for the Partnership, as well as the resulting rent receivable and payable, eliminate in consolidation. On May 1, 2004, the percentage lease agreements between the Partnership and InnSuites Hotels were terminated. During the fourth quarter of fiscal year 2004, the Partnership agreed to waive InnSuites Hotels accrued but unpaid rent in exchange for InnSuites Hotels extending its lease agreements one year. The total amount waived was \$3,134,130. This transaction had a net effect of increasing the Trust’s stockholders equity by \$1,518,834.

The expenses of the Trust consist primarily of property taxes, insurance, corporate overhead, interest on mortgage debt, professional fees, depreciation of the Hotels, management and trademark fees to affiliates and hotel operating expenses. Under the terms of its Partnership Agreement, the Partnership is required to reimburse the Trust for all such expenses. Accordingly, management believes that a review of the historical performance of the operations of the Hotels, particularly with respect to

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occupancy, 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 number of rooms available, is appropriate for understanding revenue from the Hotels. ADR increased by \$4.56 to \$70.83 in fiscal year 2005 from \$66.27 in fiscal year 2004. Occupancy increased 5.76% to 68.55% in fiscal year 2005 from 62.79% in fiscal year 2004 primarily as a result of the disposition of lower-occupancy properties. These dispositions also resulted in an increase in REVPAR of \$6.94 to \$48.55 in fiscal year 2005 from \$41.61 in fiscal year 2004.

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

	For the Year Ended January 31,		
	2005	2004	2003
Occupancy	68.55%	62.79%	60.46%
Average Daily Rate (ADR)	\$ 70.83	\$ 66.27	\$ 66.59
Revenue Per Available Room (REVPAR)	\$ 48.55	\$ 41.61	\$ 40.26

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

The Trust enters into transactions with certain related parties from time to time. For information relating to such related party transactions see the following:

- For a discussion of management and licensing agreements with certain related parties, see “Item 1 - Business - Acquisition of Management and Licensing Contracts.”
- For a discussion of acquisitions involving certain related parties, see “Item 1 - Business - Acquisition of InnSuites Hotels by the Trust.”
- For a discussion of the sales of the Trust’s Scottsdale, Flagstaff and Tempe, Arizona hotels to a related party during fiscal years 2004 and 2005, see “Item 1 - Business - Sale of Hotel Properties” and Note 19 to the Trust’s Consolidated Financial Statements - “Hotel Properties Held for Sale and Sale of Hotel Properties.”
- For a discussion of guarantees of the Trust’s mortgage notes payable by certain related parties, see Note 5 to the Trust’s Consolidated Financial Statements - “Mortgage Notes Payable.”
- For a discussion of notes and advances payable by the Trust to certain related parties, see Note 7 to the Trust’s Consolidated Financial Statements - “Notes and Advances Payable to Related Parties.”
- For a discussion of the Trust’s employment agreement with Mr. Wirth, see Note 12 to the Trust’s Consolidated Financial Statements - “Advisory Agreement/Employment Agreements.”

***Results of Operations of the Trust for the year ended January 31, 2005 compared to the year ended January 31, 2004.***

*Overview*

A summary of operating results for the fiscal years ended January 31, 2005 and 2004 is:

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	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>% Change</b>
Revenue	\$22,875,187	\$24,211,328	\$(1,336,141)	(5.5)%
Operating Loss	\$ (221,647)	\$ (272,479)	\$ 50,832	18.7%
Net Income (Loss)	\$ 240,442	\$ (2,594,317)	\$ 2,834,759	>100.0%
Income (Loss) Per Share - Basic and Diluted	\$ 0.10	\$ (1.27)	\$ 1.37	>100.0%

The Trust's overall results in 2005 were positively affected by the disposition of certain of its underperforming properties, the impact of which was partially offset by expenses related to its acquisition of the management and licensing contracts from the Management Company, which will eliminate those expenses in future years.

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For the twelve months ended January 31, 2005, the Trust had total revenue of \$22.9 million compared to \$24.2 million for the twelve months ended January 31, 2004, a decrease of approximately \$1.3 million. This decrease in total revenue is primarily due to the sale of the Tempe, Arizona and San Diego, California properties in the first quarter of fiscal year 2005. Total expenses of \$25.3 million for the twelve months ended January 31, 2005 reflect a decrease of approximately \$2.5 million compared to total expenses of \$27.9 million for the twelve months ended January 31, 2004. The decrease is primarily due to the sales of the Tempe, Arizona and San Diego, California properties in the first quarter of fiscal year 2005 and an impairment charge of \$458,000 related to the Buena Park, California and Tempe, Arizona properties in fiscal year 2004.

Loss on impairment of hotel property was approximately \$458,000 for the twelve months ended January 31, 2004. This loss resulted from write-downs for impairments of the Buena Park, California and Tempe, Arizona hotel properties. During fiscal year 2004, the Trust entered into purchase agreements related to both properties at amounts below their carrying values. The Buena Park, California property was written down by \$329,000 to its fair value of \$6.5 million, which was its subsequent sales price. The Tempe, Arizona property was written down by \$129,000 to its fair value of \$6.8 million, which was its subsequent sales price. See Note 19 to the Trust's Consolidated Financial Statements - "Hotels Held for Sale and Sale of Hotel Properties." No such loss was recorded for the twelve months ended January 31, 2005.

General and administrative expenses include overhead charges for management, accounting, shareholder and legal services for the Trust. In comparing general and administrative expenses for the twelve months ended January 31, 2005 and 2004, these expenses decreased \$258,000, or 5.5%, to \$4.4 million in fiscal year 2005, from \$4.7 million in fiscal year 2004. This decrease was primarily due to elimination of management and franchise fees paid by the Trust due to the consolidation of the Management Company and Licensing Corp. and subsequent purchase of those contracts, offset by the increased expenses to effect those transactions.

Total operating expenses for the twelve months ended January 31, 2005 were \$23.1 million, a decrease of approximately \$1.4 million, or 5.7%, from \$24.5 million in the twelve months ended January 31, 2004. The decrease was primarily due to the sales of the Tempe, Arizona and San Diego, California properties during the first quarter of fiscal year 2005 and impairment charges of \$458,000 recognized during fiscal year 2004.

Total interest expense for the twelve months ended January 31, 2005 was \$2.3 million, a decrease of \$1.1 million, or 33.0%, from \$3.4 million in the twelve months ended January 31, 2004. Interest on mortgage notes payable for the twelve months ended January 31, 2005 was \$2.1 million, a decrease of \$675,000, or 24.4%, from \$2.8 million in the twelve months ended January 31, 2004. The decrease is primarily due to the satisfaction of the mortgage notes payable secured by the Tempe, Arizona and San Diego, California properties in connection with the disposition of those properties. Interest on notes payable to banks for the twelve months ended January 31, 2005 was \$24,000, a decrease of \$30,000, or 56.2%, from \$54,000 in the prior fiscal year, due to the Trust satisfying in full its term loan in March 2003 and its line of credit in full in August 2003. Interest on notes payable to related parties decreased 77.0%, or \$419,000, to \$125,000 from \$544,000 during the years ended January 31, 2005 and 2004, respectively. The decrease is primarily due to payments totaling \$6.2 million on notes due to affiliates of Mr. Wirth in connection with the sales of the Tempe, Arizona and San Diego, California properties during the first quarter of fiscal year 2005.

Real estate and personal property taxes, insurance and ground rent decreased \$340,000, or 20.4%, to \$1.3 million from \$1.7 million in comparing the twelve months ended January 31, 2005 and 2004, respectively. Real estate and personal property taxes and property insurance decreased due to the sales of the Tempe, Arizona and San Diego, California properties during the first quarter of fiscal year 2005 and the sale of the Buena Park, California property during the third quarter of fiscal year 2004.

Hotel property depreciation for the twelve months ended January 31, 2005 compared to 2004 decreased approximately \$222,000, or 7.5%, to \$2.8 million from \$3.0 million, respectively. The decrease was primarily due to the sale of

certain hotel properties.

The Trust had income before minority interest, income taxes and cumulative effect of adoption of accounting principle of \$2.6 million for the twelve months ended January 31, 2005, compared to a loss before minority interest of \$3.6 million in the prior year. After deducting the income allocated to the minority interest of \$1.4 million, taxes of \$160,000 and the cumulative effect of adoption of accounting principle of \$854,402, the Trust had net income attributable to Shares of Beneficial Interest of approximately \$240,000. This represented an increase of approximately \$2.7 million attributable to Shares of Beneficial Interest comparing the twelve months ended January 31, 2005 and 2004. Basic and diluted net income per share was \$0.10 for the twelve months ended January 31, 2005, compared to a loss of \$1.27 for 2004.

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**Results of Operations of the Trust for the year ended January 31, 2004 compared to the year ended January 31, 2003.***Overview*

A summary of operating results for the fiscal years ended January 31, 2004 and 2003 is:

	<b>2004</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
Revenue	\$24,211,328	\$26,940,473	\$(2,729,145)	(10.1)%
Operating Loss	\$ (272,479)	\$ (1,080,639)	\$ 808,160	74.8%
Net Loss	\$ (2,594,317)	\$ (3,445,948)	\$ 851,631	24.7%
Loss Per Share - Basic and Diluted	\$ (1.27)	\$ (1.67)	\$ 0.40	24.0%

The Trust's overall results in both 2004 and 2003 were adversely affected by the sluggish economic environment and reduced travel due to the war in Iraq and other terror concerns. Decreased demand in both the leisure travel, particularly in southern California, and business travel markets resulted in declining revenues during fiscal year 2004.

For the twelve months ended January 31, 2004, the Trust had total revenue of \$24.2 million compared to \$26.9 million for the twelve months ended January 31, 2003, a decrease of approximately \$2.7 million. This decrease in total revenue is primarily due to fewer occupied rooms and the absence of revenue from the Scottsdale, Arizona property due to its sale in the first quarter of fiscal year 2004, and from the Flagstaff, Arizona and Buena Park, California properties, which were sold in the third quarter of fiscal year 2004. Total expenses of \$27.9 million for the twelve months ended January 31, 2004 reflect a decrease of approximately \$4.0 million compared to total expenses of \$31.9 million for the twelve months ended January 31, 2003. The decrease is primarily due to the impairment charge of \$590,000 related to the Scottsdale property in fiscal year 2003, reduced hotel expenses as a result of reduced occupied rooms and the absence of expenses from the Scottsdale, Flagstaff and Buena Park properties due to their sale in fiscal year 2004.

Loss on impairment of hotel property was approximately \$458,000 for the twelve months ended January 31, 2004. This loss resulted from the write-downs for impairments of the Buena Park, California and Tempe, Arizona hotel properties. During fiscal year 2004, the Trust entered into purchase agreements related to both properties at amounts below their carrying values. The Buena Park, California property was written down by \$329,000 to its fair value of \$6.5 million, which was its subsequent sales price. The Tempe, Arizona property was written down by \$129,000 to its fair value of \$6.8 million, which was its subsequent sales price. See Note 19 to the Trust's Consolidated Financial Statements - "Hotels Held for Sale and Sale of Hotel Properties." Loss on impairment of hotel property was approximately \$590,000 for the twelve months ended January 31, 2003. This loss resulted from the write-down for an impairment of the Scottsdale, Arizona hotel property. The operating performance of the Scottsdale property during that period indicated that it significantly decreased in value, which required management to test the property for recoverability of book value under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." Based on an appraisal of the property's fair value, the hotel property's carrying value was determined not to be recoverable. The hotel property, including land, buildings and improvements and furniture, fixtures and equipment, was written down by \$590,000 to its fair value and new basis of \$3.1 million. The amount of impairment allocated to Shares of Beneficial Interest was \$294,000 and the amount allocated to minority interest was \$296,000. The hotel property's decrease in value was due to changes in the economic conditions, and decreased prospects for future development, in its immediate area. During fiscal year 2004, the impaired property was sold to Scottsdale Eldorado Resort, LLC, an affiliate of Mr. Wirth, for \$3.1 million.

General and administrative expenses include overhead charges for management, accounting, shareholder and legal services for the Trust. In comparing general and administrative expenses for the twelve months ended January 31, 2004 and 2003, these expenses decreased \$1.1 million, or 19.0%, to \$4.7 million in fiscal year 2004, from \$5.8 million

in fiscal year 2003. This decrease was primarily due to \$91,000 of expense related to the refinancing of the Tucson St. Mary's and San Diego properties in fiscal year 2003, a decrease of \$242,000 in trademark and management fees in fiscal year 2004 due to amendments to the related contracts, and the absence of such expenses from the Scottsdale, Buena Park and Flagstaff properties due to their sale during the first quarter of fiscal year 2004.

Total operating expenses for the twelve months ended January 31, 2004 were \$24.5 million, a decrease of approximately \$3.5 million, or 12.6%, from \$28.0 million in the twelve months ended January 31, 2003. The decrease was primarily due to the impairment charge of \$590,000 related to the Scottsdale property in fiscal year 2003, reduced hotel expenses as a result of reduced revenue and the absence of expenses from the Scottsdale, Buena Park and Flagstaff properties due to their sale in the first quarter of fiscal year 2004.

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Total interest expense for the twelve months ended January 31, 2004 was \$3.4 million, a decrease of \$424,000, or 11.2%, from \$3.8 million in the twelve months ended January 31, 2003. Interest on mortgage notes payable for the twelve months ended January 31, 2004 was \$2.8 million, a decrease of \$165,000, or 5.6%, from \$2.9 million in the twelve months ended January 31, 2003. Interest on notes payable to banks for the twelve months ended January 31, 2004 was \$54,000, a decrease of \$111,000, or 67.4%, from \$165,000 in the prior fiscal year, due to the Trust satisfying in full its term loan in March 2003 and its line of credit in full in August 2003. Interest on notes payable to related parties decreased 21.4%, or \$148,000, to \$544,000 from \$692,000 due to a decrease of \$2.9 million in net borrowings from Mr. Wirth and his affiliates.

Real estate and personal property taxes, insurance and ground rent decreased \$219,000, or 11.6%, to \$1.7 million from \$1.9 million in comparing the twelve months ended January 31, 2004 and 2003, respectively. Real estate and personal property taxes and property insurance decreased due to the sale of the Scottsdale property in the first quarter of fiscal year 2004 and decreased property tax assessments at certain hotels.

Hotel property depreciation for the twelve months ended January 31, 2004 compared to 2003 decreased approximately \$418,000, or 12.3%, to \$3.0 million from \$3.4 million, respectively. The decrease was primarily due to the sale of certain hotel properties and the cessation of depreciation on hotel properties classified as held for sale.

The Trust had a loss before minority interest of \$3.6 million for the twelve months ended January 31, 2004, compared to a loss before minority interest of \$4.9 million in the prior year. After deducting the loss allocated to the minority interest of \$1.0 million, the Trust had a net loss attributable to Shares of Beneficial Interest of approximately \$2.6 million. This represented a decrease in total net loss of approximately \$852,000 attributable to Shares of Beneficial Interest comparing the twelve months ended January 31, 2004 and 2003. Basic and diluted net loss per share was \$1.27 for the twelve months ended January 31, 2004, compared to \$1.67 for 2003.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

Net cash provided by operating activities totaled \$660,000, \$88,000, and \$1.1 million for the years ended January 31, 2005, 2004 and 2003, respectively. The increase in 2005 as compared to 2004 was primarily due to better operating results. The decrease in 2004 as compared to 2003 was primarily due to the Trust's efforts to reduce its liabilities, especially trade payables.

Net cash provided by or used in investing activities totaled \$8.0 million, \$10.2 million, and \$(1.6) million for the years ended January 31, 2005, 2004 and 2003, respectively. The decrease in 2005 as compared to 2004 was primarily due to fewer dispositions in fiscal year 2005. The increase in 2004 as compared to 2003 was primarily due to the sale of certain Hotels during fiscal year 2004.

Net cash provided by or used in financing activities totaled \$(8.6) million, \$(10.4) million, and \$513,000 for the years ended January 31, 2005, 2004 and 2003, respectively. The increase in 2005 as compared to 2004 was primarily due to reduced net payments on notes payable to Mr. Wirth and his affiliates during fiscal year 2005. The decrease in 2004 as compared to 2003 was primarily due to the sale of certain Hotels in fiscal year 2004, the proceeds of which the Trust used to reduce its debt balances to related parties and satisfy its mortgage notes on these properties.

The Trust received \$9.4 million in proceeds for the sales of hotel properties in fiscal year 2005. The Trust used \$4.8 million of these proceeds to satisfy a mortgage note payable, \$1.4 million to satisfy related party notes and interest payable, and retained the remaining proceeds to reduce trade payables and to fund future operations and capital improvements.

The Trust received \$12.2 million in proceeds for the sales of hotel properties in fiscal year 2004. The Trust used \$3.0 million of these proceeds to satisfy a mortgage note payable, \$4.4 million to satisfy related party notes payable, \$3.0 million to satisfy bank notes payable and the remaining proceeds to fund operations.

The Trust's principal source of cash to meet its cash requirements, including distributions to its shareholders, is its share of the Partnership's cash flow and, as of January 31, 2005, its direct ownership of the Yuma, Arizona property. The Partnership's principal source of revenue after May 1, 2004 is hotel operations for the five properties it owns. The Trust's liquidity, including its ability to make distributions to its shareholders, will depend upon the ability of itself and the Partnership to generate sufficient cash flow from hotel operations.

Historically, as a REIT, the Trust was required to distribute to its shareholders at least 90% of its taxable income, excluding net capital gains. The termination of the Trust's status as a REIT, effective February 1, 2004, eliminated this requirement. However, by relinquishing its status as a REIT, the Trust will become subject to the payment of income taxes.

As of January 31, 2004, the Trust has no commitments for capital expenditures beyond a 4% reserve for refurbishment and replacements that is set aside annually, as described below.

The Trust is obligated under loan agreements relating to five of its hotels to deposit 4% of the individual hotel's room revenue into an escrow account to be used for capital expenditures. These accounts are restricted by the mortgage lenders. As of January 31, 2005, \$250,642 was held in these accounts and is reported on the Trust's Consolidated Balance Sheet as "Restricted Cash." The accounts are required to be used for capital improvements to the Hotels and refurbishment and replacement of furniture, fixtures and equipment. During the twelve months ended January 31, 2005 and 2004, the Hotels spent approximately \$1.3 million and \$1.8 million, respectively, 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 Trust plans to spend approximately \$691,000 for capital expenditures in fiscal year 2006. The Hotels also spent approximately \$1.4 million and \$1.8 million during fiscal years 2005 and 2004, respectively, on repairs and maintenance and these amounts have been charged to expense as incurred.

The Trust has minimum debt payments of \$1.7 million and \$1.2 million due during fiscal years 2006 and 2007, respectively. The Trust plans to renew its bank line of credit when it matures during fiscal year 2006. The Trust believes it can satisfy its remaining obligations during fiscal years 2006 and 2007 using revenue generated by the Hotels' operations.

Management believes that cash on hand, future cash receipts from operations, proceeds from hotel sales and borrowings from affiliates in fiscal year 2006 will be sufficient to meet the Trust's obligations as they become due for the next twelve months.

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 will 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 or that proceeds from borrowings or issuances of Shares of Beneficial Interest will be available or in amounts and on terms sufficient to allow such transactions.

#### CONTINUED LISTING WITH THE AMERICAN STOCK EXCHANGE

On June 13, 2003, the Trust received notice from the American Stock Exchange ("Amex") indicating that the Trust failed to meet certain of Amex's continued listing standards as set forth under Section 1003(a) of the Amex Company Guide. The Trust became non-compliant with Amex's continued listing standards due to losses incurred by the Trust in its most recent f